The publication of this report has been made possible thanks to the support of Sustainable Business Lab’s co-founding partner - Unilever company.

Unilever is one of the world’s leading manufacturers of fast moving consumer goods. The company’s products are sold in more than 190 countries. Unilever employs about 169,000 people worldwide and its turnover in 2015 amounted to €53.3 billion. In Russia, Unilever owns 4 production sites: in St. Petersburg, Tula, Omsk, and Yekaterinburg. In 2012, the company celebrated its 20th anniversary at the Russian market.

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Dear colleagues,

You are holding the report ‘Sustainable Russia: A Guide for Multinational Corporations’ which represents a unique kind of analytical study of the corporate sustainability agenda and business cases implemented within the Russian business environment. The report was prepared by the Sustainable Business Lab of the SKOLKOVO Institute for Emerging Market Studies.

The publication focuses on the corporate sustainability strategies of forward-thinking multinational corporations operating in Russia that have acted as drivers of more sustainable practices and transformations in the Russian business environment during the past two decades. The authors of the publication have attempted to apply an integrated and interdisciplinary approach in their analysis and provide certain rigorous analytical judgments on this topical issue.

This research regards sustainability as a source of business opportunity that creates additional demands and challenges for corporate decision-makers who have to make adjustments in their mindset and approaches. In order to be responsive to these changes, corporate officers have to acquire new practical skills and instruments; as such, education and knowledge sharing become the key enablers for such business transformation. This Guide might be instrumental for corporate sustainability strategists working in global and Russian businesses, as it structures a number of applied frameworks that outline potential ways of assessing business value and risks from the sustainability perspective.

Indisputably, the topic of sustainability is vast and of a dynamic nature, meaning that sustainability practices in Russia can be studied from various perspectives. Hence, the coverage and scope of this publication is limited to practical observations and selected cases. Still, we believe in the importance of initiating this meaningful dialogue about sustainability with various stakeholders, and we hope that this report might spur interest and a constructive exchange of ideas within the Russian business community.

We believe that by sharing the same values, Moscow School of Management SKOLKOVO together with Russian-based sustainability proponents, can make a real impact on the business environment and raise a new generation of responsible business leaders, eventually making Russia a better place.

Andrey SHARONOV
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Starting from the early 2000s, Russia has been one of the most attractive emerging markets for foreign investors. Between 2002 and 2015 Russia consistently ranked among the top 25 most likely Foreign Direct Investment (FDI) destinations in the A.T. Kearney Foreign Direct Investment Confidence Index.

In the process of entering the Russian market multinational corporations (MNCs) have to customise not only their core business strategy to the specific market conditions, but also their sustainability strategy. Each market where the MNC operates is featured by different economic, social, environmental, and institutional challenges, hence application of a universal sustainability strategy which does not take into account local specifics cannot be feasible. Once global business enters a new sales market, it has to start balancing the global sustainability commitments made by the headquarters and the need for localisation.

Working in Russia and implementing the sustainability agenda there can be indisputably a very unique and challenging experience due to the ‘transitional’ nature of the Russian market. Because of certain comparability in their profile characteristics, it has been decided to compare Russia’s factor endowment with its BRICS peers. IEMS Sustainability Composite Index which was the methodological exercise aimed at ranking 142 countries along four sustainability dimensions has been instrumental in making such comparison. According to the IEMS Sustainability Composite Index, Russia is ranked 50th out of 142 constituent countries, hence positioning the country in the middle of the development spectrum along four sustainability dimensions: economic, social, environmental and governance.

Furthermore, the country-level analysis defines the operational context for the MNCs, as it identifies fifteen strengths and weaknesses inherent in the Russian business environment that create scope for sustainable business actions. Depending on the nature and industry of the business, some of these factors become more or less relevant. Each of the economic, social, environmental and governance factors can lead to potential sustainable business action. For example, developed ‘hard’ infrastructure denotes minimum capital expenditures on the part of foreign investors themselves, as in Russia the state of roads, ports, airports and warehouses is of sufficient quality and coverage. The state policy on ‘import’ substitution offers scope for localising production and supply chains. Advanced level of consumer sophistication coupled with high proportion of the middle class illustrates consumer readiness for buying customised product portfolio. Educated and healthy labour force represents valuable intangible asset for MNCs which can tap significant managerial expertise locally, without having to fill in positions with expatriate staff. The Russian market is peculiar in that for some of the traditional solutions in corporate sustainability it is still too ‘early’, while for others it is already too ‘late’.

In addition to the analysis of the country sustainability profile, this research has applied a bottom-up approach and assessed the state of the Russian business environment from the perspective of the multinational corporations that have localised their global sustainability agenda and overcome certain barriers in the process. The research analysed a sample of 30 MNCs from five industrial sectors - technological, oil, gas & chemical, health, beauty & pharmaceutical, furniture, pulp & paper, and FMCG, food & beverages. These particular companies were selected based on their leading position in the global corporate sustainability rankings and strong operational presence in Russia.

The analysis of the global and national-level sustainability agendas implemented by the sampled 30 MNCs has yielded five building blocks (products, operations, stakeholders, fundamentals and CSR) that can be incorporated into a comprehensive tool applied by any sustainability strategist working anywhere in the world. In addition to the assessment of the high-level sustainability agendas, the research also focused on the analysis of several most impactful initiatives implemented by these corporations in Russia. These corporate best practices have illustrated the MNCs’ role in transforming the Russian business environment by educating suppliers, supporting the development of voluntary certification schemes, engaging in collective lobbying activities as members of industrial associations, in addition to some other sustainable business actions. The analysis of impactful business cases has made it possible to highlight areas where sustainability can pay back through the approach targeting chains, consumers and communities.

In the process of implementing their corporate sustainability initiatives, MNCs encounter ten external barriers that are inherent in the Russian business environment:

- Lack of potential partners such as international and national NGOs;
- Lack of and limited application of international and national certification and/or eco-labelling schemes;
- Low consumer demand for sustainable products and services;
- Prevalence of short-termism.

Most of these barriers denote significant business implications, for example, a lack of sufficient infrastructure, either in the form of human capital or accessible technologies, creates additional costs for businesses. It means that businesses have to invest in the development of ‘soft’ infrastructure or import technologies from abroad instead of sourcing for them locally. While most of the success stories presented in this report have illustrated the sustainability efforts of individual corporations, the global experience suggests that the critical mass gained as a result of collective actions in partnerships can become the enabler for overcoming external barriers.

To conclude, the role of MNCs as powerful and effective transformational agents should be acknowledged. During the past 25 years the notion of corporate sustainability has evolved in Russia, the Russian business environment has transformed, and certain industries have emerged or metamorphosed. Sustainable business actions which MNCs have implemented in Russia became a significant driver behind some of those positive changes. This fact gives hope that some of the identified ten barriers might be successfully tackled in the nearest future. Collective work and joint efforts among various market players can hasten this accomplishment, as the time when companies could succeed on their own has passed. It is high time for joint actions, and only then sustainability would become even more beneficial and a source of value-added for all participants.
Currently, the importance of sustainable development is growing for all countries and all stakeholders, especially for business. On September 25, 2015, the 193 countries of the UN General Assembly adopted the 2030 Development Agenda entitled “Transforming Our World.” The framework consists of 17 Sustainable Development Goals (SDGs) and 169 targets. In comparison with the 2000 – 2015 Millennium Development Goals (MDGs) framework, the SDGs give more scope and set higher expectations for the active involvement of corporations in sustainable development. Over the next decade corporate strategies will be without any doubt shaped by the SDGs.

At the same time, the scale and ambition of the 2030 sustainable development agenda create a tremendous opportunity for the private sector to contribute to sustainable development and human prosperity. In all countries of the world, at the national level, stakeholders evaluate the activities of private business from the perspective of impact on society and environment, and their expectations with regard to corporate sustainability enhancement are constantly growing.

Businesses, in general, should constantly seek new opportunities for building sound and impactful business cases. At the present time, the leading MNCs act globally as intermediary agents when it comes to driving sustainable development and leading the sustainability agenda in response to growing social and environmental challenges, with the potential to transfer their best practices to the countries where they operate. Because of the companies’ large size and scope, the impact of the activities of these MNCs is sizable, and as a result they are constantly in the spotlight and fall under massive scrutiny for any misconduct. These corporations no longer view sustainable development as an ‘add-on’ activity to their major operations; rather, they perceive it as an important extension of shareholder and stakeholder value, as well as an integral part of the core business operations. As a result, MNCs can gain considerable economic and social benefits within any country where they adapt their sustainable business practices.

Different countries offer different opportunities for the development of corporate sustainability initiatives. In each country, including Russia, MNCs localise their global sustainability agenda differently, depending on the country’s level of sustainable development along four dimensions: economic, social, environmental and governance. Various sovereign sustainability indices and ratings can be reasonable proxies for plotting countries on the so-called ‘sustainability map’, however, it should be noted that the preliminary research has not identified the existence of a four-dimensional index.

In terms of the sustainable development spectrum, highly-industrialised, developed countries and the least-developed countries represent extrema of this spectrum. As a result,
Corporate sustainability strategies should be customised towards the particular factor endowments of these countries. In developed countries, businesses have significant opportunities for implementing corporate sustainability initiatives, thanks to developed legislation and regulations, market incentives and advanced environmental and social cultural norms. In low-income and developing countries, in contrast, there are low costs for sustainability investments and the return on social investment is higher, as basic human needs are not always being met. In addition, there are greater opportunities for scaling up social efforts while addressing the ‘bottom of the pyramid’ and building a large customer base via community-based initiatives.

Apart from the two extremes of the development spectrum, there is also a bloc of emerging countries which have ‘transitional’ status, and where the sustainability playing field is still evolving and sustainability solutions are not as straightforward as the ones applied in developing and developed countries. Due to Russia’s membership in the BRICS bloc of countries, Brazil, China, India and South Africa are frequently compared to Russia as relevant benchmarks, as all five countries are classified as emerging countries with similar profile characteristics. At first glance, it appears that this peer group is highly homogeneous; however, it should be noted that these emerging countries differ in national priorities; sources of economic, social, environmental and institutional distress; and material threats. For example, Brazil prioritises sustainable management of natural forests, while in India, water, sanitation and hygiene issues are of the paramount importance.

Within the research framework, the analysis of sustainability profiles across countries assesses Russia’s position along four dimensions of sustainability with other BRICS peers, identifying each country’s main strengths and weaknesses, and later ranking the BRICS countries in accordance to their level of sustainable development.

Because of the ‘transitional’ status, it is not always evident whether there is a strong rationale for the corporate sustainability case in Russia, or even if MNCs can find the right space for building value-added business cases across the four dimensions of sustainability. In Russia, at present, there appears to be a void in this respect. Russian consumers are not mature enough in order to act as a sustainability driver, ‘command-and-control’ methods still prevail in the legislative and regulatory environment, and global multilateral institutions and international NGOs do not have such a strong influence as they do in developing countries. Also, most of the impactful initiatives that companies successfully implement in other developing countries and that are designed to serve the ‘bottom of the pyramid’ represent a very poor fit for the Russian context, as the demand for these services and products has been fully satisfied, usually by the state. In addition, the Russian business environment features certain external barriers that limit the application of certain sustainability instruments that MNCs successfully implement in developed markets. Because of this reason, MNCs often have to fine-tune the national sustainability strategy on a case-by-case basis in Russia.

This research project studies the experience of MNCs implementing sustainability initiatives in Russia, addresses the lack of certain guidelines, and provides examples of business models that can serve as success stories in corporate sustainability. Despite these potential constraints, leaders in sustainability among the MNCs operating in Russia have to introduce sustainability initiatives in order to comply with their headquarters’ requirements. MNCs may encounter a variety of constraints in the process of addressing corporate requirements and localising global sustainable practices, as there could be fewer stimuli and fewer opportunities in the ‘transitional’ countries.

The following questions are answered within the research scope of this project:

1. What is the operational context for implementing sustainable business actions in Russia?
2. What are the best practices in corporate sustainability that are implemented by the leading MNCs in the Russian milieu?
3. What are the main barriers impeding the evolution of corporate sustainability in Russia?

The research report consists of three chapters that discuss the following points:

Chapter 1 assesses Russia’s factor endowment, including the analysis of four sustainability dimensions: economic, social, environmental and governance. Russia’s sustainability performance is compared to its BRICS peers from the historical and snapshot perspectives, and that gives us valuable insights on absolute and relative dynamics. At the end of each of the four sections on sustainability dimensions, implications for global businesses resulting from the interplay of dimensional strengths and weaknesses are listed. The analysis of Russia’s factor endowment leads to potential sustainable business actions, which MNCs can implement in order to capitalise on strengths or mitigate weaknesses.

Chapter 2 presents a sample of 30 MNCs considered to be leaders in corporate sustainability, based on their position in the most representative ratings such as Forbes 2015, Green Brands 2014, Dow Jones 2014, as well as their operational presence in Russia. The analysis includes the ‘degree of localisation’ of the global strategic priorities of the selected MNCs in the Russian agenda.

Breaking down the sustainability agenda of these companies enables the identification of specific building blocks which can be included in any sustainability strategy. This has the potential to offer valuable insights and become instrumental for sustainability strategies, as the building blocks of a successful sustainability strategy that could be effectively applied in the Russian context are not fully explored at the moment, and there are no sufficient guidelines available to global and Russian businesses on this subject.

The chapter focuses on presenting the most impactful business cases implemented by the sampled MNCs that are considered to be the best practices. All business cases are classified into several sustainability themes, and there is at least one case described in great detail for each sustainability theme. Each business case illustrates the material and non-material value which global business gains from implementing these sustainability actions.

Chapter 3 reviews the presence of certain external barriers that impede the implementation of the impactful business cases that are presented in Chapter 2. This research attempts to classify these external barriers, describe their current status and suggest the potential implications for the private sector. Then the global experience of the private sector in addressing the same barriers is analysed in order to identify the key enabler.

For the purpose of this research, it was decided to focus the analysis on the experiences and existing approaches towards the sustainability of global businesses with strong operational presence in Russia, rather than Russian companies. This was done in order to ensure the scope for comparison of international priorities and localised strategies as well as to study corporate sustainability strategies of MNCs operating in a similar business environment.
CHAPTER 1.
RUSSIA VS. BRICS PEERS: STRATEGIC IMPLICATIONS

PLOTTING RUSSIA ON THE SUSTAINABILITY MAP

All countries are characterised by a different level of sustainable development. As a result, MNCs have to localise their global sustainability agenda in accordance with the country’s position in some sustainability-related coordinate system due to the presence of these country-based specifics. Depending on the country’s specific conditions, various sustainability strategies and practices make more sense. While in the least developed world, business is expected to address basic needs and build bottom of the pyramid models, in the developed world, regulation and mature customer demand provides another sustainability playing field.

Despite this fact, it is surprisingly hard to find businesses focused on attempting to analyse the global map from the corporate sustainability perspective and plot the respective positions of all countries there. One of the reasons is that there is still no universal definition for “sustainability.”

In an attempt to analyse Russia’s state of sustainable development, Institute for Emerging Market Studies (SKOLKOVO IEMS) applies the approach of defining the sustainability space through the perspective of the quadruple bottom line (QBL*), which is defined by a unique combination of economic, social, environmental and governance factors. Although the QBL concept has been widely used in recent years, there is no single metric assessing the country’s position from the four-dimensional perspective.

- **ECONOMIC SUSTAINABILITY** can be defined as “the capacity of an economic system to generate a constant and improving growth of its economic indicators. Within a territorial system, economic sustainability means the capability, through the most efficient mix of resources, to produce and maintain the highest added value, in order enhance the specificity of territorial products and services.”[1]

- **SOCIAL SUSTAINABILITY** can be defined as “the ability to guarantee welfare (security, health, education), equitably distributed among social classes and gender. Within a territory, social sustainability means the capacity of the different social actors (stakeholders), to interact efficiently, to aim towards the same goals, encouraged by the close interaction of the Institutions, at all levels.”[1]

- **ENVIRONMENTAL SUSTAINABILITY** can be defined as “the capacity to preserve over time the three basic functions of the environment: the resource supply function, the waste receiver function and that of direct usefulness. In other words, within a territory environmental sustainability means the capacity to increase and bring up the value of the environment and its peculiarities, while assuring the protection and the renewal of natural resources and the environmental patrimony.”[1]

- The governance dimension usually concerns the **INSTITUTIONAL SUSTAINABILITY** of the system, which is based on accountability, transparency, the rule of law and ethics. Three aspects of governance are usually incorporated into the extended definition of sustainability: good governance (the processes of decision-making and their institutional foundations), effective governance (the capacity of countries to pursue sustainable development), and equitable governance (distributive outcomes).[2]

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* Quadruple bottom line is the extension of the traditional triple bottom line framework comprising economic, social and environmental dimensions, adding governance as the fourth bottom line.
A country’s position along each dimension is determined by the unique combination of specific strengths and weaknesses. The interplay between economic, social, environmental and governance factors can determine the so-called ‘longitude’ and ‘latitude’ of the position of almost any country on this four-dimensional space. This mapping exercise can be a good starting point for an MNC sustainability strategist, as it can be instrumental for understanding the country-specific factors of almost any market where a company operates or is thinking about entering in the future.

**INTRODUCING THE SKOLKOVO IEMS SUSTAINABILITY COMPOSITE INDEX**

There is no universal understanding of a definition for “sustainability”, however, various country sustainability ratings and indices can be considered as reasonable proxies that provide insights into a country’s strengths and weaknesses across a broad range of economic, environmental, social and governance indicators. Because there is no sovereign four-dimensional index in place, SKOLKOVO IEMS introduces a methodological innovation – the IEMS Sustainability Composite Index, which has been designed in order to measure all indicators that are considered of relevance for assessing a country’s position on the sustainability map. The index includes four sub-indices, which correspond to the four dimensions of sustainability. According to the IEMS Sustainability Composite Index Methodology†, a country’s economic sustainability is measured through a composite rating consisting of indicators like Genuine Savings, Gross Domestic Product, Employment, and Public Debt. The social dimensional analysis includes Sufficient Food, Sufficient to Drink, Safe Sanitation, Education, Healthy Life, Gender Equality, Income Distribution, Population Growth and Good Governance. Environmental sustainability is calculated as a weighted average of two metrics measuring endowment of natural resources (the difference between biocapacity and ecological footprint) and the quality of ecosystem protection and resource management. Governance metrics measure institutional sustainability across six indicators: Voice & Accountability, Political Stability & Absence of Violence/Terrorism, Government Effectiveness, Regulatory Quality, Rule of Law & Property Rights & Judiciary Independence, and Control of Corruption.

The creation of the IEMS Sustainability Composite Index was an exercise aimed at designing an all-encompassing index that incorporates all indicators, which SKOLKOVO IEMS considers relevant for assessing a country’s position on the sustainability map. The index includes four sub-indices, which correspond to the four dimensions of sustainability. The IEMS Sustainability Composite Index illustrates the phenomenon of ‘transitional’ countries, which are positioned in the middle of the spectrum, with Russia being one of them. The top three countries with the most advanced state of sustainable development are from Scandinavia (Norway, Finland and Denmark). The bottom of the spectrum is represented by the African countries, which are typically associated with the ‘poverty trap’ problem, namely Mauritania, Chad and the Democratic Republic of the Congo.

As a ‘transitional’ country, Russia does not have the same level of consumer activism, civic and corporate responsibility, access to green technologies, consumer demand for green products, good governance, comparable opportunities and stimuli as more mature markets, which are positioned in the left of Figure 1, so not all best practices adopted in the Western markets can be transferred to the Russian setting.

On the other hand, Russia has achieved a high level of social and human development thanks to the Soviet legacy, and that is reflected in its position as a best performer in the social sub-index in comparison to other BRICS peers. The countries characterised as ‘transitional’ successfully take care of basic human needs, and as a result, their social scores are close to the levels of the leaders of the ranking. However, they perform much more poorly in the ecological dimension, as very often they have followed the ‘brown’ economic growth model, which prioritised economic and social objectives, often at the expense of the environmental and governance dimension. This research chapter attempts to compare Russia’s strengths and weaknesses described above along all four sustainability dimensions to other BRICS peers.
The period of economic growth brought an improvement in the standard of living of the average Russian citizen and also contributed to the emergence of a middle class, which reached a level of approximately 50-55% of the population by the end of that decade, according to the Institute of Sociology at the Russian Academy of Sciences [8]. While throughout the 1990s the middle-class proportion of the Russian population lagged behind Brazil, starting from the early 2000s Russia overhauled all other BRICS countries and became the country with the largest proportion of the middle-class [9]. Thanks to steadily rising incomes, Russia became Europe’s largest market for a wide range of consumer goods in 2012, and it was the world’s 11th largest consumer market in the world, according to Euromonitor International [10].

EMERGENCE OF THE MIDDLE CLASS

Starting from 2009, Russia’s economic growth slowed down, recording a growth rate of 4.3% in 2011, 3.4% in 2012, 1.3% in 2013 and 0.6% in 2014 [7]. The current economic contraction highlighted Russia’s overdependence on the natural resources segment and the failure to diversify its economic profile.

TABLE 1: RUSSIAN FEDERATION: Key Production Indicators

<table>
<thead>
<tr>
<th>Indicators</th>
<th>2000</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP change (%) year-on-year</td>
<td>5.2</td>
<td>-7.8</td>
<td>4.5</td>
<td>4.3</td>
<td>3.4</td>
<td>1.3</td>
<td>0.6</td>
</tr>
<tr>
<td>GDP per capita, PPP (US$)</td>
<td>21,615</td>
<td>20,066</td>
<td>21,211</td>
<td>22,564</td>
<td>23,702</td>
<td>24,798</td>
<td>24,805</td>
</tr>
<tr>
<td>Nominal GDP per capita (USD)</td>
<td>11,615</td>
<td>8,575</td>
<td>10,667</td>
<td>13,518</td>
<td>13,696</td>
<td>14,496</td>
<td>15,088</td>
</tr>
<tr>
<td>Industrial output, change (%) year-on-year</td>
<td>0.6</td>
<td>-3.3</td>
<td>8.2</td>
<td>4.7</td>
<td>2.6</td>
<td>0.3</td>
<td>1.7</td>
</tr>
<tr>
<td>Extraction of mineral resources, change (%) year-on-year</td>
<td>0.4</td>
<td>0.6</td>
<td>3.6</td>
<td>1.9</td>
<td>1.1</td>
<td>1.2</td>
<td>1.4</td>
</tr>
<tr>
<td>Fixed capital investment, change (%) year-on-year</td>
<td>9.5</td>
<td>-15.5</td>
<td>6.5</td>
<td>10.8</td>
<td>6.6</td>
<td>0.8</td>
<td>-2.7</td>
</tr>
</tbody>
</table>

While Russia has succeeded in reporting much higher income per capita values, this is partially the result of stagnant or declining population growth. Its BRICS peers, in particular India and China, have been more successful at achieving impressive economic growth by introducing products and brands in industries other than oil and gas capable of competing in the global markets. China’s high-tech products manufactured by Huawei, ZTE and Lenovo compete globally, while many Chinese brands are constituents of Brand Finance’s Global Top 500, such as Alibaba Group (e-commerce), WeChat (messaging app), Hikvision (producer of video-surveillance equipment) and Evergrande Real (real estate).

The 2015 list of the world’s 500 most valuable brands also includes six Russian brands: Sberbank (state-owned bank), Gazprom (oil & gas), Magnit (food retail), MTS (telecommunications), Lukoil (oil & gas) and Megafon (telecommunications). While all the constituent Russian brands represent one of four industries - oil & gas, financial services, food retail or telecom, other BRICS countries have brands that offer competitive tangible products or intangible high-value services. Examples include Brazil’s Skol (beer) and Natura (cosmetics), or India’s Larsen & Toubro (engineering) and HCL (technology).

The economic slowdown in Russia that started in 2009 intensified further in 2014 as a result of plunging oil export revenues and international sanctions, both of which led to ruble depreciation. There have been multiple negative economic effects experienced at the household level, as, on average, the standard of living of the majority of the Russian population has deteriorated during the past few years. Household consumption and real wages started declining in 2013 before finally falling 9% in 2015. The middle class has also started shrinking, and it is expected to fall further from 20% to 15% of the population in 2017. Today, an average Russian family spends 40% of its income on food products compared with the 15% level recorded for developed markets.

In the light of the economic contraction, it can be assumed that Russia’s position in upcoming global sustainability ratings and indices will weaken from 2015 onwards, as they would reflect deepening recession and resulting deterioration in economic health.

The economic crisis hit not only Russian consumers, but also Russian producers that had been heavily dependent on imported raw materials and machinery, both of which became less affordable due to the Russian currency depreciation. In response to international sanctions, the Russian government adopted the “Made in Russia” national policy, which is focused on import substitution. Many Russian producers and exporters are ambitiously attempting to take advantage of the weaker ruble. As of the end of 2015, there were more than 2,500 import-substitution projects with the total cost of 2.5 trillion rubles to support them.

In the light of the economic contraction, it can be assumed that Russia’s position in upcoming global sustainability ratings and indices will weaken from 2015 onwards, as they would reflect deepening recession and resulting deterioration in economic health.

ECONOMIC SLOWDOWN AND SANCTIONS

The economic slowdown in Russia that started in 2009 intensified further in 2014 as a result of plunging oil export revenues and international sanctions, both of which led to ruble depreciation. There have been multiple negative economic effects experienced at the household level, as, on average, the standard of living of the majority of the Russian population has deteriorated during the past few years. Household consumption and real wages started declining in 2013 before finally falling 9% in 2015. The middle class has also started shrinking, and it is expected to fall further from 20% to 15% of the population in 2017. Today, an average Russian family spends 40% of its income on food products compared with the 15% level recorded for developed markets.

In the light of the economic contraction, it can be assumed that Russia’s position in upcoming global sustainability ratings and indices will weaken from 2015 onwards, as they would reflect deepening recession and resulting deterioration in economic health.
FIRST, of all, the Russian market does not represent the ‘bottom of the pyramid’ due to the high proportion of the middle class, which has a high disposable income. This assumption offers a MARKET POTENTIAL FOR MNCs TO INTRODUCE SUSTAINABLE PRODUCTS that are customised for Russian consumers. Although the consumer boom peaked in 2011-2013, the Russian market remains attractive for global businesses.

SECOND, Russia has a strong 25-year record of Foreign Direct Investment (FDI) inflows and sufficient endowment of economic resources to accommodate foreign investors. The GENERAL STATE OF RUSSIAN INFRASTRUCTURE IS MORE THAN SATISFACTORY, AS THE RATES OF ELECTRIFICATION AND MOBILE COVERAGE ARE HIGH, and there is an ESTABLISHED NETWORK OF PORTS, ROADS AND RAIL. Russia inherited many physical assets as part of the Soviet legacy, including a decent power network and an extensive railway system. In the World Economic Forum’s Global Competitiveness Index, Russia is ranked 35th out of 140 countries for its infrastructure base. Hence, global businesses would not have to make expensive capital investments in order to get their raw materials to production sites or final products to market.

THIRD, as the Russian government is committed to import substitution, MNCS WILL BE ENCOURAGED TO LOCALISE PRODUCTION AND SOURCING TO A MUCH GREATER EXTENT THAN BEFORE. Hence, those global businesses that have production sites outside of the country and tap the Russian customer base only via the import route without a strong local presence might be at a disadvantage.

Irrespective of the recent economic contraction, Russia still remains among the world’s ten largest economies [13]. As a result, the current situation represents not only threats but also opportunities for global businesses.

SOCIAL DIMENSION

Russia’s social performance in comparison to the other 141 countries is comparatively weaker than its economic results, as illustrated by the IEMS Sustainability Composite Index (where Russia ranked #49 compared to #51 in the economic sub-index). However, the country is still positioned as the group leader of the BRICS bloc. The human well-being dimension of the Sustainable Society Index, which has been selected as a proxy, measures the extent to which countries provide for the basic needs of their citizens. The strong record of social progress recorded by Russia can be primarily attributed to the Soviet legacy, as the country succeeded to build a strong social welfare state during the 20th century, having addressed the problems of infant mortality, hygiene, sanitation and illiteracy.

EDUCATION

In terms of a snapshot view of the education indicator, Russia has one of the world’s most educated workforces, with a high percentage of workers having a postsecondary education. That statistic has often allowed Russia to be included in the list of the world’s most innovative countries*. In Russia, 94% of adults aged 25-64 have completed upper secondary education, which is much higher than the OECD average of 75% [14]. In terms of historical dynamics, the education indicator, together with the income distribution metrics of the IEMS Social Sub-Index, recorded a negative percentage decrease between 2006 and 2014. Therefore, it can be assumed that Russia’s social performance has progressively deteriorated.

POPULATION DYNAMICS

As of December 30, 2015, Russia’s total population was 146.3 million people [15]. After fourteen years of decline, Russia’s demographic dynamics started gradually improving in 2009. Average life expectancy and population size have been growing by means of two key factors: immigration from other post-Soviet countries and a natural increase starting in 2013. However, the inflow of migrants is still the main driver of Russia’s population growth. The revival in Russian population dynamics could be attributed to the state’s pro-children policies that were adopted in the mid-2000s (including the 2007 Russian family policy reform and the ‘maternity capital’ certificates), as many of those policies were structured in the form of monetary incentives.

* Russia is ranked 12th in the Bloomberg Innovation Index.
The composition of Russia’s population in terms of urban and rural percentages has been fairly static, as the percentage of the nation’s urban population has been estimated at a constant rate of 74% between 2009 and 2015 [15]. This denotes that the degree of urbanisation is quite high, however, it is manageable in Russia in comparison to some other emerging markets, as in absolute terms the size of the urban population increased marginally from 104.9 million in 2009 to 108.3 million in 2015. During the past 25 years, the rate of urbanisation has fluctuated around the static level of 75-74%; however, it should be noted that Russian regions differ significantly in terms of urbanisation, and the concentration of economic activity differs from region to region.

**COMPARISON TO BRICS PEERS**

It should be noted that BRICS education systems provide quality education to 40% of the world’s population [16]. According to the World Economic Forum’s Global Competitiveness Index, the Russian Federation scores the highest amongst the BRICS countries for the higher education and training pillar in terms of enrollment rates, system quality and availability of on-the-job training. Russia has also succeeded in achieving gender parity in terms of education.

With regard to the education sector, all BRICS countries share some common characteristics. For example, elementary education remains a public service in all BRICS countries, with little involvement by private providers. In terms of population dynamics, China, Brazil and the Russian Federation already have total fertility rates below the replacement level, while that level is not likely to be reached in India and South Africa before 2030 [16]. With regard to the health indicators, Russia has the lowest rate of infant mortality [11].

<table>
<thead>
<tr>
<th>Country</th>
<th>Total public expenditure on education As % of GDP</th>
<th>As % of total government expenditure</th>
<th>1999</th>
<th>2012</th>
<th>1999</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil</td>
<td>3.9</td>
<td>5.8</td>
<td>9.5</td>
<td>14.6</td>
<td></td>
<td></td>
</tr>
<tr>
<td>China</td>
<td>1.9</td>
<td>3.7</td>
<td>11.4</td>
<td>16.3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>India</td>
<td>4.3</td>
<td>5.4</td>
<td>16.3</td>
<td>11.3</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>RUSSIAN FEDERATION</strong></td>
<td><strong>2.9</strong></td>
<td><strong>4.1</strong></td>
<td><strong>9.2</strong></td>
<td><strong>12.0</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>South Africa</td>
<td>6.0</td>
<td>6.6</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: UNESCO (2014) [16]

The Social Progress Index assesses the success of 135 countries in the Basic Human Needs dimension, taking into account countries’ progress in providing for the social needs of their citizens in four key components: nutrition and personal safety, shelter and personal safety. According to the 2014 data, the Russian Federation scores the highest (74.1) in the BRICS bloc for the country’s ability to serve citizens’ basic needs, with China (75.7) as the runner-up, and Brazil (71.1), South Africa (64.6) and India (58.9) lagging behind in their social progress.

While most of the aforementioned factors have been inherited as part of the Soviet legacy, it should be noted that in historical perspective, indicators related to education and health systems have experienced a moderate deterioration during the past two decades.

**ENVIRONMENTAL DIMENSION**

In comparison to other sustainability elements, measuring a country’s environmental performance can be more challenging due to the lack of a universal approach to the definition of environmental sustainability. A country’s environmental performance can be assessed through the perspective of its natural resource endowment, environmental footprint and the quality of its resource management and ecosystem conservation efforts. The IEMS Environmental Sub-Index represents an attempt of merging all three perspectives into one proxy, as the difference between biocapacity and footprint is weighted at 50%, and the quality of environmental policy performance at 70%.

**DECOUPLING ENVIRONMENTAL FOOTPRINT FROM ECONOMIC GROWTH**

Most practitioners and academic researchers claim that Russia has succeeded in decoupling environmental footprint from economic growth during the past two decades, as the recorded GDP increase was not accompanied by a comparable change in ecological footprint. Due to the collapse of the Soviet Union and its industries in the early 1990s, Russia emits less greenhouse gases (GHGs) today than in 1990. Usually resource use and carbon emissions are ‘coupled’ with the gross domestic product variable, particularly in developing countries, and that was true for...
the Russian Federation during the 1990s, as a reduction in CO2 emissions was associated with falling manufacturing production, low national output and declining population.

Starting from the early 2000s, Russia has succeeded in accelerating its economic performance, without the associated cost of high carbon intensity, as that economic growth was primarily fuelled by soaring oil prices and did not originate in the factors related to national industrial production. In 2012 the GDP indicator registered a 172.9% increase in comparison to the 2000 level, while GHG emissions increased by only 111.8% over the same time period [17].

Environmental Policy

Retrospectively, it can be recognised that Russian legislative and regulatory policies introduced between 2000 and 2004 were actually consistently ‘de-greening’ in their impact, with the removal of policies and compliance mechanisms directed at environmental protection and conservation. During that time period, the need for economic revival totally eclipsed environmental goals. For example, in May 2000 the main federal environmental watchdog, the State Environmental Commission (Goskomekologi), was demolished and its responsibilities were transferred to the Ministry of Natural Resources and Environment, making the latter simultaneously responsible for both control and use of natural resources, thus diminishing the scope of environmental oversight function in Russia. Starting from the mid-2000s, the situation with regard to environmental policy has started gradually improving.

For assessing Russia’s environmental policy performance from the perspective of natural resource management, the Environmental Performance Index (EPI) can be applied as a valid proxy. In historical perspective, Russia experienced worsening environmental performance over time: in 2014, Russia ranked 73rd, while four years earlier in 2010, it was ranked 69th. Another complementary index, the Pilot Trend Environmental Performance Index (Trend EPI), also supports that claim with time series data, showing that Russia experienced a severe decline in environmental performance during the decade of 2000-2010 due to worsening air quality for human health, depletion of fisheries and loss of forests. High-energy intensity of GDP is another environmental indicator that should be mentioned, as in Russia any cyclical declines in GDP energy intensity usually result from structural changes in the economy rather than as an impact of successfully implemented energy-saving measures. In terms of energy efficiency, Russia still lags behind developed countries, as its current energy inefficiency is equal to the annual primary energy consumption of France [19].

Comparison to BRICS Peers

Table 5 illustrates the coupling of the biocapacity and ecological footprint indicators for the BRICS countries, calculated in accordance with the Global Footprint Network methodology. The positive biocapacity reserve position measured in global hectares per person (i.e. 1.1 gha/capita) denotes that Russia can act in the capacity of an ecological ‘donor,’ as its population is less dependent on the biocapacity of other nations due to this surplus position. ‘Russia is in an advantageous position as one of the few nations in the world with a solid biocapacity reserve,’ according to Mathis Wackernagel, President of Global Footprint Network. “Even in this fortunate position, it is squarely in Russia’s self-interest to minimise the loss of its biocapacity reserve by managing its resource use wisely. If it fails to do so, Russia will be caught in the same resource crisis that many other countries face.” [20]

Table 3. Biocapacity and Ecological Footprint Metrics for BRICS Countries*

<table>
<thead>
<tr>
<th>Country</th>
<th>Total Ecological Footprint</th>
<th>Total Bicapacity</th>
<th>Bicapacity (Deficit or Reserve)</th>
<th>Number of Earths Required</th>
<th>Number of Countries Required</th>
</tr>
</thead>
<tbody>
<tr>
<td>Russia</td>
<td>5.7</td>
<td>6.0</td>
<td>1.1</td>
<td>3.3</td>
<td>0.8</td>
</tr>
<tr>
<td>Brazil</td>
<td>3.1</td>
<td>9.1</td>
<td>6.0</td>
<td>1.8</td>
<td>0.5</td>
</tr>
<tr>
<td>China</td>
<td>3.4</td>
<td>0.9</td>
<td>-2.4</td>
<td>2.0</td>
<td>3.6</td>
</tr>
<tr>
<td>South Africa</td>
<td>3.3</td>
<td>1.2</td>
<td>-2.2</td>
<td>1.9</td>
<td>2.9</td>
</tr>
<tr>
<td>India</td>
<td>1.2</td>
<td>0.5</td>
<td>-0.7</td>
<td>0.7</td>
<td>2.6</td>
</tr>
</tbody>
</table>

Source: Global Footprint Network (2016) [21]

* Note: Data as of 2013. Bicapacity (deficit or reserve) is calculated as total biocapacity minus total ecological footprint and measured in global hectares per person.
India, Russia's current state of energy inefficiency represents untapped potential for private sector actors. Both global and local businesses operating in India still underutilise the potential of renewable energy sources, and there are existing market niches in many segments of 'green' products, such as off-grid energy efficient technologies. The importance of this particular factor is likely to grow in the future in light of the eventual increase in energy tariffs and the resulting effect on industrial enterprises. In response, global and local businesses would have to maintain their competitive position by modernising and increasing energy resource productivity.

Third, India's development of urban sustainability is still in its infancy, and this segment represents major business opportunities in light of the high urbanisation rate of 74% and the COP21 vision on climate change. India's urban landscape is in need of 'green' engineering solutions. In the Indian context, urban sustainability does not involve resilience to natural hazards and disaster risk management, but is more focused on reducing carbon footprint, air pollution, traffic congestion, and promoting energy and water conservation. Since the country followed the 'brown' economic growth model in the past, today's main environmental objectives for India should be focused on solving past problems and correcting negative externalities of the resource-intensive industrial development via modernisation, installation of energy-efficient technologies and restoration of degraded biodiversity.

Governance Dimension

Out of all four sustainability dimensions, India scores the most poorly in the governance spectrum. The country ranks 100th out of 142 constituent countries, and it has the worst governance profile in the BRICS peer group. Such elements of the external environment as government effectiveness, regulatory quality, the rule of law, property rights and control of corruption are all included as relevant institutional indicators that define a country's level of sustainable development. While businessmen often fail to detect the empirical evidence linking social and environmental factors to the enterprise's financial performance, governance factors are indisputably treated as a source of risk for core business activities, as they represent the key driver of the country's investment climate and economic competitiveness.
According to World Economic Forum research, high levels of corruption, deficiencies in the rule of law and lack of market competition limit the potential of the Russian economy [23]. The research also states that, “The administrative burden caused by inefficient or unclear bureaucratic processes increases transaction costs within the economy, from opening a business to customs procedures or accessing utilities. Uncertainty about how regulations are applied and enforced and how property rights are protected has an equally paralysing effect on economic transactions. Corruption and undue influence are among the biggest problems for doing business in Russia, according to World Economic Forum surveys.” All these governance-related factors, especially weak property rights and the monopolistic position of politically influential large corporations, diminish Russia’s attractiveness as a market for foreign investment.

Key stakeholders and decision-makers at different levels have acknowledged the problem of Russia’s weak governance. There has been some progress in tackling some corporate governance issues, for example, via publishing reports on non-financial factors and the introduction of e-government initiatives.

COMPARISON TO BRICS PEERS

While the World Economic Forum’s Global Competitiveness Index is an all-encompassing metric assessing the country’s overall competitiveness, the Economist Intelligence Unit’s Business Rankings Model is a more appropriate proxy for analysis of a country’s governance profile. This particular model has been utilised for assessing Russia’s governance profile in comparison to other BRICS countries. The model measures the quality or attractiveness of the business environment in 82 countries, examining ten separate criteria or categories: (1) Political environment (2) Macroeconomic environment (3) Market opportunities (4) Policy towards free enterprise and competition (5) Policy towards foreign investment (6) Foreign trade and exchange controls (7) Taxes (8) Financing (9) Labour market and (10) Infrastructure. It is designed to reflect the main criteria used by companies to formulate their global business strategies, and is based not only on historical conditions but also on expectations about conditions prevailing over the next five years.

These results are consistent with the IEMS Sustainability Governance Sub-Index, as Russia is the poorest performer out of all BRICS countries with a score of 5.85. The results for the other four BRICS countries are the following: Brazil (6.57), China (6.9), South Africa (6.25) and India (6.08). With regard to all governance indicators, Russia is considered to lag behind its BRICS peers, with the exception of civil society participation, where China fares worse [11]. In comparison, Brazil, South Africa and India all have active and constructive civil society in place.

FIRST of all, Russia’s weak governance profile has almost certainly ‘contaminated’ the area of corporate governance. In light of this fact, GLOBAL BUSINESSES MIGHT BENEFIT FROM THE TRANSFER OF CORPORATE GOOD GOVERNANCE PRACTICES established at the headquarters level to the Russian setting. Also, multinational companies can consider enforcing corporate codes of conduct and applying a zero tolerance policy towards the governance misconduct of their employees.

SECOND, multinational companies face operational risks from unethical counterparties or fraudulent and corrupt practices on the part of their suppliers. Hence, MNCS SHOULD ENFORCE NOT ONLY ENVIRONMENTAL BUT ALSO GOVERNANCE STANDARDS ON THEIR SUPPLIERS AND OTHER BUSINESS PARTNERS.

THIRD, the private sector can attempt to transform the institutional environment by forming strategic partnerships and joining industrial associations. Global and local businesses HAVE A GREATER CHANCE OF IMPOSING PRESSURE ON THE GOVERNMENT AND PUBLIC SECTOR ACTORS FOR MAKING POSITIVE CHANGES IF THERE IS AN ENTITY THAT HAS SUFFICIENT CRITICAL MASS and is capable of representing collective interests.
 TOOL 1. SCOPE FOR SUSTAINABLE BUSINESS ACTION

Even though Brazil, Russia, India, China and South Africa are all classified as members of the BRICS, this group of countries is highly heterogeneous in terms of their sustainable development progress. Depending on the country’s progress towards sustainable development, global businesses should formulate their sustainability strategies and customise them towards the specific features of a particular country’s context.

Due to Russia’s ‘transitional’ status, there are very few niches that private sector sustainability can potentially fill in Russia. In order to identify the potential ‘action space’ and formulate a national sustainability strategy, global businesses should analyse Russia’s natural resource endowments, which have been presented in some of the aforementioned country-level indices and rankings.

While each of the four dimensions - economic, social, environmental and governance - provides space for sustainable business action, it is also important to mention that they at the same time provide space for non-action and non-prioritization of sustainability-related activities. For example, affordability of natural resources and generally satisfied basic needs may result in poor efficiency of CSR initiatives in this field. At the same time, more sophisticated projects aimed at educating stakeholders and supplying resource-efficient products and processes may help a company in terms of market differentiation and building competitive advantages.

Source: SKOLKOVO IEMS

THE MOST FORWARD-THINKING CORPORATE ‘VISIONARIES’ TEND TO FINE-TUNE THEIR SUSTAINABLE BUSINESS ACTIONS AS NEEDED IN RESPONSE TO THE EMERGING OPPORTUNITIES AND THREATS THAT ARE INHERENT IN A COUNTRY’S OPERATIONAL CONTEXT.

CHAPTER 1. RUSSIA VS. BRICS PEERS: STRATEGIC IMPLICATIONS
After the collapse of the Soviet Union, the Russian Federation emerged as an attractive new market that opened up to global businesses. Over the past 25 years, many MNCs have made considerable inroads into the Russian market, and for a large proportion of them, Russia has become one of the key sales markets for products and services. The cumulative stock of FDI in Russia was recorded at $15 billion in 2004 and $475 billion in 2014 [4].

Upon their entrance into new countries, especially the emerging economies, MNCs bring new business models and practices into the local markets. However, the immediate operating environment and existing ‘rules of the game’ also shape their business performance and investment returns. Global corporations generally act as catalysts when it comes to driving sustainable development and leading the sustainability agenda across all markets where they are active as a response to growing social and environmental challenges.

In Russia, MNCs have always been subjected by their stakeholders (shareholders, local NGOs and Western consumers) to compliance with the corporate standards and codes which these multinational companies have to enforce universally across all their global operations. Throughout the 1990s, some corporate standards of global corporations were more advanced in comparison to the national regulations, and because of that, MNC practices have shaped positive developments within the sustainability field in Russia.

This research analyses a sample of 30 MNCs from five industrial sectors: technological, oil, gas & chemical, health, beauty & pharmaceutical, furniture, pulp & paper, and FMCG, food & beverages. These particular companies have been selected as ‘visionaries’ and leaders in corporate sustainability, based on their position in the most representative ratings such as Forbes 2015, Green Brands 2014 and Dow Jones 2014. In order to cover retrospective data, the Green to Gold 2008 ranking was also covered. At the same time, within the ranking analysis stage, priority was given to the companies with a strong operational presence in Russia (in terms of assets, number of staff, localised production, etc.). Table 5 presents the summary information for the sampled companies.

The selected companies entered the Russian market at different times. One of the first multinational companies in Russia was Germany’s Siemens, which established a representative office in Russia even before the Revolution of 1917. Only two MNCs out of 30 entered the Soviet market for the first time during the Cold War period. PepsiCo has a very interesting story of success: perhaps the undeniable success of Pepsi soda in the USSR became possible thanks to Nikita Khrushchev, who was photographed having a Pepsi at an American trade exhibition in Moscow in 1959 [24].

The majority of the selected companies, though, entered the Russian market for the first time during the 1990s when Russia opened up to foreign investors and entered its transition stage to becoming a market economy. The Asian companies Samsung and Toyota entered the Russian market at about the same time. The ‘newcomers’ are Heineken and IKEA, which established their Russian country offices only in the 2000s.
## Table 5: Profiles of the 30 Sampled Companies

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Sector</th>
<th>Country of Origin</th>
<th>Year Established</th>
<th>Main Activity in 2016</th>
<th>Location</th>
<th>Number of Employees in 2016</th>
<th>Number of Countries &amp; Territories Product Sold</th>
<th>Number of Production Facilities in 2016</th>
<th>GEB in 2016 in CHF, in US$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nestle</td>
<td>FMCG/food and beverages</td>
<td>Switzerland</td>
<td>1966</td>
<td>Switzerland</td>
<td>10,000</td>
<td>359,000</td>
<td>11</td>
<td>197</td>
<td>91</td>
</tr>
<tr>
<td>Nokia</td>
<td>Technological</td>
<td>Finland</td>
<td>1965</td>
<td>Finland</td>
<td>1,000</td>
<td>61,656</td>
<td>-</td>
<td>151</td>
<td>14</td>
</tr>
<tr>
<td>Novartis</td>
<td>Health, beauty &amp; pharmaceutical</td>
<td>Switzerland</td>
<td>1758</td>
<td>Switzerland</td>
<td>2,300</td>
<td>133,413</td>
<td>1</td>
<td>151†</td>
<td>58</td>
</tr>
<tr>
<td>Novo Nordisk</td>
<td>Health, beauty &amp; pharmaceutical</td>
<td>Denmark</td>
<td>1923</td>
<td>Denmark</td>
<td>380</td>
<td>39,703</td>
<td>12</td>
<td>75</td>
<td>13</td>
</tr>
<tr>
<td>PepsiCo</td>
<td>FMCG/food and beverages</td>
<td>USA</td>
<td>1890</td>
<td>USA</td>
<td>23,000</td>
<td>274,000</td>
<td>1</td>
<td>201†</td>
<td>67</td>
</tr>
<tr>
<td>Philips</td>
<td>Technological</td>
<td>Netherlands</td>
<td>1891</td>
<td>Netherlands</td>
<td>600</td>
<td>113,676</td>
<td>-</td>
<td>100</td>
<td>25</td>
</tr>
<tr>
<td>Procter &amp; Gamble</td>
<td>FMCG/food and beverages</td>
<td>USA</td>
<td>1837</td>
<td>USA</td>
<td>4,000</td>
<td>118,000</td>
<td>3</td>
<td>81</td>
<td>83</td>
</tr>
<tr>
<td>Saint-Gobain</td>
<td>Construction materials</td>
<td>France</td>
<td>1665</td>
<td>France</td>
<td>2,700</td>
<td>181,742</td>
<td>7</td>
<td>66</td>
<td>45</td>
</tr>
<tr>
<td>Samsung</td>
<td>Technological</td>
<td>Korea</td>
<td>1969</td>
<td>Korea</td>
<td>1,700</td>
<td>489,000</td>
<td>1</td>
<td>81†</td>
<td>505</td>
</tr>
<tr>
<td>Schneider Electric</td>
<td>Technological</td>
<td>France</td>
<td>1856</td>
<td>France</td>
<td>13,000</td>
<td>167,124</td>
<td>7</td>
<td>190</td>
<td>27</td>
</tr>
<tr>
<td>Shell</td>
<td>Oil, gas &amp; chemical</td>
<td>Netherlands</td>
<td>1907</td>
<td>Netherlands</td>
<td>2,700</td>
<td>94,000</td>
<td>3</td>
<td>71</td>
<td>421</td>
</tr>
<tr>
<td>Siemens</td>
<td>Technological</td>
<td>Germany</td>
<td>1847</td>
<td>Germany</td>
<td>3,000</td>
<td>345,000</td>
<td>5</td>
<td>191</td>
<td>78</td>
</tr>
<tr>
<td>Tetra Pak</td>
<td>FMCG/food and beverages</td>
<td>Sweden</td>
<td>1943</td>
<td>Sweden</td>
<td>1,100</td>
<td>23,460</td>
<td>1</td>
<td>86</td>
<td>12</td>
</tr>
<tr>
<td>Toyota</td>
<td>Technological</td>
<td>Japan</td>
<td>1937</td>
<td>Japan</td>
<td>1,850</td>
<td>538,875</td>
<td>1</td>
<td>171</td>
<td>25</td>
</tr>
<tr>
<td>Unilever</td>
<td>FMCG/food and beverages</td>
<td>Netherlands</td>
<td>1930</td>
<td>Netherlands</td>
<td>7,000</td>
<td>172,000</td>
<td>8</td>
<td>100†</td>
<td>53</td>
</tr>
</tbody>
</table>

* Number of countries and territories, where the product is sold
† As LafargeHolcim Group
‡ As LafargeHolcim Group

Source: Company websites and other open sources, SKOLKOVO IEMS
As discussed in the previous Chapter, Russia is a transitional country in terms of sustainable development and has its particularities that differentiate it from more developed and less developed countries, as well as from other BRICS peers. Because of that reason, MNCs cannot simply deploy their global strategies and standardised approach in a market without a certain degree of customisation and localisation. It can be assumed that the local context defines how MNCs operating in Russia apply their global sustainability strategies at the national level.

The Strategies and Priorities Localisation Analysis section aims to evaluate the localisation degree of the strategies declared at the global level for the 30 sampled companies in Russia, and later break down those sustainability strategies into building blocks that can be included in the toolkit of a sustainability strategist who plans to tap the Russian market. In order to assess the degree of localisation of global companies’ sustainability agendas in Russia, the global set of public strategic priorities has been compared with the sustainability priorities and initiatives at the national level for the same companies.
<table>
<thead>
<tr>
<th>Sustainability issues</th>
<th>FMCG/Food and Beverages</th>
<th>Furniture, pulp and paper</th>
<th>Health, beauty and pharmaceutical</th>
<th>Oil, gas and chemical</th>
<th>Technological</th>
<th>Construction materials</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sustainable products</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Sustainable sourcing, value chain and supply chain management</td>
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</tr>
<tr>
<td>Marketing &amp; communication with customers</td>
<td></td>
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<tr>
<td>Sustainable packaging</td>
<td></td>
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<tr>
<td>Sustainable transportation</td>
<td></td>
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</tr>
<tr>
<td>R&amp;D and Innovations</td>
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<tr>
<td>CO2 &amp; energy</td>
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<td></td>
<td></td>
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</tr>
<tr>
<td>Reducing production footprint</td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Waste &amp; recycling</td>
<td></td>
<td></td>
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<td>Water</td>
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<tr>
<td>Green building</td>
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<tr>
<td>Use of non-fossil fuels (e.g., waste) in energy generation</td>
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<tr>
<td>Local communities</td>
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</tbody>
</table>

Materiality of issue for the sampled industries (globally)

Materiality of issue for the sampled industries (nationally)

Source: SKOLKOVO IEMS
This analysis has demonstrated that the average localisation rate for the entire sample of 30 companies is 47%. This denotes the difference between the global and Russian sustainability agendas of the sampled companies and illustrates the fact that global sustainability priorities are usually customised towards the country-based specifics of the particular operational context. There could be a number of reasons underlying the low average localisation rate of 47%. First, some issues such as water are not as important for Russia as they are for other countries due to the abundance of resources and/or immateriality factor. Second, a company may choose to prioritise certain issues in Russia and pay less attention to other issues declared in the global agenda depending on its strategic interests in Russia. In this regard, it is important to note that for many sampled companies, some issues appear in the Russian agenda outside of the scope of the global agenda. The majority of such strategic priorities and initiatives are related to the issues related to local operations and local relations with other stakeholders: environmental responsibility, reducing production footprint, partnerships & associations, volunteer activity, local communities and stakeholders’ education (apart from suppliers). Last but not least, multinational companies operating in Russia face certain barriers for the implementation of their global sustainability agenda. As a result, localisation of some global priorities is not feasible.

The analysis of sustainability priorities at the national level has also highlighted the presence of industry-specific trends with regard to the materiality aspect. The sustainability agenda both at the global and national level tends to be largely driven by the industry in which the company operates.

For example, value chains are usually positioned within the scope of influence of the FMCG and furniture, pulp & paper companies, and because of that, sampled companies representing these particular industries prioritise sustainable packaging and sustainable transportation priorities both at the global and national levels. For technological companies, protecting privacy & personal information must be embedded into their sustainability strategy due to the nature of their industry and core product. In contrast, this issue might not be material for FMCG companies.

In order to look into these differences, the weighted frequencies of the 26 sustainability issues appearing in global and Russian agendas have been plotted on a graph* and divided into four categories (Figure 15):

- Important at both levels (frequent in global agendas, frequent in Russian agendas);
- Not important at both levels (not frequent in global agendas, not frequent in Russian agendas);
- Important at global level, not important at national level (frequent in global agendas, not frequent in Russian agendas);
- Important at national level, not important at global level (not frequent in global agendas, frequent in Russian agendas).

While the majority of the issues are either important or not important in both global and Russian agendas, there are some differences between the declared priorities of global corporations at the global level and ones at the Russian level.

The following issues are important at both levels: sustainable sourcing, value chain and supply chain management, CO₂ & energy, sustainable products, local communities, staff motivation, development & talent retention, water, waste & recycling, occupational health and safety, marketing and communication with customers, and environmental responsibility. These issues are applicable to the activities of any large responsible producer. These issues are the most important overall in the declared strategies of the corporate sustainability leaders, and the ‘must-dos’ for responsible companies at all levels (global and national). However, the focus of these issues is often different at the global and the national levels. For example, while at the global level the same issue of CO₂ & energy primarily focuses on the aspect of GHG reduction, at the Russian level, all activities implemented under the umbrella of the same issue concern energy efficiency.

There are two issues that are important at the global level, but not important at the national level: human rights and diversity/women empowerment. These issues are interconnected and the corresponding issues are very popular at the global level. In the Russian business community, the problems of human rights and diversity/women empowerment are, on the contrary, not popular topics, likely because the basic human needs have been successfully addressed in Russia, as discussed in Chapter 1, and other social problems have not been ‘material’ for global businesses operating in Russia thanks to the Soviet legacy. Finally, there are issues that are important at the national level, but not important at the global level: reducing production footprint, volunteer activity, and partnerships and associations. With regard to reducing production footprint, sampled companies, on average, concentrate

* In order to understand the differences between the global and Russian declared strategies of 30 companies, all components of the global and Russian sustainability agendas (sustainability priorities) for each one of 30 sampled companies have been divided into 26 issues, i.e. sustainability strategy building blocks. At the global level, strategic priorities have been previously derived from the global sustainability strategy or communication plans. Depending on the company’s sustainability reporting approach, they have been completed with the data either at the pillar, priority/priority/ goal or KPI level. If a company did not specifically articulate its sustainability strategy, a declared company’s general strategy has been analysed. Primary sources for this corporate information were companies’ global/English-language online websites, however, information about the sustainability strategies of some of the sampled companies has been derived from their most recent sustainability/social or annual reports. With regard to the national level, strategic priorities have been derived from the communicated country-level sustainability strategy from Russian corporate online websites and/or sustainability reports, if available. If a company did not specifically articulate its strategy, or in case there was only a translated version of the global English language website, company’s sustainability priorities have been derived from the available headings in the sustainability section of the respective website.
on traditional environmental protection, environmental management and local operations as their national sustainability priorities at a much greater extent in comparison with the global sustainability strategies.

It is also important to note that Russian sustainability strategies of the selected MNCs from the technological sector often declare the general environmental protection of the territories where they operate, and such strategic priorities have been placed under the ‘Reducing production footprint’ issue. Although MNCs tend to engage in Volunteer activity and Partnerships and associations at both global and national levels, they rarely declare these initiatives as standalone sustainability priorities; however, at the national level these two issues are considered to be a part of the publicly stated sustainability agenda. In Russia the ‘Partnerships and associations’ priority relates primarily to corporate lobbying activities in the field of environmental legislation.

The comparison of frequencies of these 26 sustainability priorities between the global and Russian agendas by five sustainability strategy building blocks is shown in Figure 16.

TOOL 2.
5 SUSTAINABILITY STRATEGY BUILDING BLOCKS

All these 26 issues have different importance in sustainability strategies and represent the integral components of corporate sustainability. They can be classified into the following sustainability strategy building blocks:

- **PRODUCTS** - include stages of the product life cycle from R&D and sourcing to product footprint.
- **OPERATIONS** - include business processes that are directly related to manufacturing and modernising production sites.
- **STAKEHOLDERS** - include activities, which are based on an outreach component and impact external stakeholders, with the exception of consumers.
- **FUNDAMENTALS** - are normally the essential components of any core business strategy and are a ‘must-do’ for any company even before it starts pursuing the sustainability trajectory.
- **CSR** - covers traditional corporate charitable and philanthropic activities.

The comparison of frequencies of these 26 sustainability priorities between the global and Russian agendas by five sustainability strategy building blocks is shown in Figure 16.

THE LOCALISATION ANALYSIS WAS THE INSTRUMENT FOR BREAKING DOWN THE SUSTAINABILITY AGENDAS INTO THE AFOREMENTIONED BUILDING BLOCKS: FUNDAMENTALS, STAKEHOLDERS, OPERATIONS, PRODUCTS AND CSR. ONCE THE STANDALONE BUILDING BLOCKS ARE ISOLATED, IT BECOMES POSSIBLE TO DESIGN A CUSTOMISED SUSTAINABILITY ‘TOOLKIT’ FOR ANY COMPANY. DEPENDING ON THE NATURE OF THE PRODUCT AND INDUSTRY, THE COMBINATION OF BUILDING BLOCKS IN THE OVERALL SUSTAINABILITY STRATEGY DIFFERS ACCORDINGLY.
For further analysis, only three building blocks are considered, namely PRODUCTS, OPERATIONS AND STAKEHOLDERS. For the purpose of this study, sustainability is interpreted beyond the mere concepts of corporate philanthropy, charity and CSR, as those normally do not present direct business cases. In order for the company to establish itself as a market player, it must install all components of the Fundamentals building block. Once the company decides to enhance its corporate brand image and reputation, it should start implementing CSR activities.

However, only when the company is actively looking for ways to differentiate itself from its rivals as a sustainability leader should it apply a comprehensive sustainability strategy across all three building blocks.

In order to identify the most transformational best practices that have been successfully implemented by the 30 sampled companies, a list consisting of 110 sustainability initiatives was compiled. Then that long list of sustainability initiatives was assessed against the following criteria in order to derive a short list of the most impactful business cases. The below filtering criteria has been applied in order to measure the impact of all 110 sustainability initiatives.

- Uniqueness;
- Type of Action;
- Scale – Partnership;
- Type of Result.

After having applied that filter, 32 business cases implemented by the sub-sample of 19 companies have been identified as the best practices. All those 32 business cases have been classified into the three sustainability strategy building blocks: products, operations and stakeholders, which were also split into six themes: sustainable products & marketing, sustainable sourcing, product footprint, climate change & energy efficiency, operational efficiency, and partnerships and associations.

Not all 26 components that have been identified as part of the sustainability agenda offer equal scope for building the most transformational and impactful business cases. The aforementioned six themes have the highest inherent potential for enabling an impactful business case. Some of the thematic headings are identical to the aforementioned sustainability issues; however, there are some minor variations. For example, the operational efficiency theme comprises several of the sustainability issues: reducing production footprint, waste & recycling, green buildings and water.
THE FOLLOWING 13 COMPANIES ARE IDENTIFIED AS THE CORPORATE LEADERS THAT ARE INCORPORATING SUSTAINABILITY THROUGHOUT THE ENTIRE PRODUCT LIFECYCLE OR WITHIN ONE OF ITS PHASES, E.G. SOURCING OR DISPOSAL.

SUSTAINABLE PRODUCTS & MARKETING

Products marketed to the consumer and the revenues received from selling this product are traditionally the paramount goals of any commercial company. Companies make significant investments in designing the products attractive to the target consumer groups and extending their consumers’ range by offering them new, improved or differentiated products. Nowadays, with sustainable development and sustainability being very popular subjects worldwide, “sustainable product” is the term that is often used, although it can be defined in several different ways.

First, it can be defined as a product with components or raw materials coming from sustainable suppliers. This upstream process is described in the SUSTAINABLE SOURCING section. Second, a sustainable product can also be defined as a product produced in a sustainable manner. The sustainable production process is discussed in the Operational efficiency section. Third, it can also be defined as a product with a low post-consumer footprint. This post-consumer process is considered in the PRODUCT FOOTPRINT section. Finally, sustainable product can be defined as a product bringing sustainability to a consumer, e.g. having a positive impact on the consumer or natural environment.

For example, it could be a product that enhances a consumer’s health or well-being (for the FMCG or health, beauty & pharmaceutical sectors), or a product that allows the consumer through its application to save energy or water (mostly for the technological sector). This particular definition is applied in this study. Thus, for the purpose of this research study, “sustainable product” refers strictly to a company’s downstream activities.

The main incentive for the companies to produce a sustainable product is to sell it to specific groups of consumers who are attentive to their health and lifestyle, seeking savings of resources, or who are concerned about environmental or social impacts of the products they consume. Sustainable marketing, therefore, identifies specific needs of such consumers, attracts their attention to the sustainable product, and then informs them and other groups of consumers about the advantages of the use of the product. From this perspective, sustainable marketing promotes sustainability and sustainable development.

There are two issues identified during the analysis of the sustainability strategies of the 30 MNCs in the sample. These issues are related to the theme of sustainable products & marketing: sustainable products and marketing & communication with customers. Both issues are important at global and national levels, as many sampled companies address them in their sustainability agendas. The localisation rates, however, differ by industry.

It is worth noting that technological companies implement all identified best practices. All four business cases placed under the category of sustainable products are introduced by Siemens and Schneider Electric and refer to the area of energy consumption and generation. Three of these business cases relate to energy-efficient products.

This fact once again supports the argument that energy efficiency is a very important topic in Russia. The other business case refers to the production of components for renewable energy generation plants, and the marketing business case describes Samsung’s application of the ‘Vitality Leaf’ certification (for more information on this certification refer to Chapter 3)

TABLE 8: SUSTAINABILITY STRATEGY BUILDING BLOCK 1 - PRODUCTS. LIST OF BEST PRACTICES

<table>
<thead>
<tr>
<th>THEME</th>
<th>COMPANY NAME</th>
<th>BEST PRACTICE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sustainable product &amp; marketing</td>
<td>Samsung</td>
<td>Certified production in accordance with the “Vitality Leaf” standard</td>
</tr>
<tr>
<td></td>
<td>Siemens</td>
<td>Energy efficient trains made in Russia, Lobbying activities with regard to the issue concerning cooperation with and power plants &amp; energy efficiency in Russia</td>
</tr>
<tr>
<td></td>
<td>Schneider Electric</td>
<td>Shaping energy efficiency regulatory environment in Russia, Schneider Electric supplies equipment for solar power plants and works on localisation of its production in Russia</td>
</tr>
<tr>
<td>Sustainable sourcing</td>
<td>Coca-Cola</td>
<td>75% of raw materials purchased from Russian suppliers, joint programmes with suppliers focused on reducing packaging weight, supply chain optimisation, supporting sustainable development projects, contributing to the development of the economy in regions where it has a presence</td>
</tr>
<tr>
<td></td>
<td>Heineken</td>
<td>In 2013 Heineken Russia joins Innovation Global Platform EcoVadis aimed at evaluation and improvement of social and environmental indicators of main suppliers</td>
</tr>
<tr>
<td></td>
<td>IP</td>
<td>In 2001, one of the main assets of the company Swedrock plant became the first pulp and paper mill in Russia certified under the scheme of forest management FSC. In 2003 the company became the owner of the supply chain FSC certificate</td>
</tr>
<tr>
<td></td>
<td>McDonald’s</td>
<td>The company buys more than 85% of its products from 160 Russian manufacturers</td>
</tr>
<tr>
<td></td>
<td>PepsiCo</td>
<td>From 1996 PepsiCo has supported producers of agricultural products through the programme called Agro. Together with Cornell University it has developed and introduced educational projects within the Agro framework</td>
</tr>
<tr>
<td></td>
<td>Unilever</td>
<td>Programme on procurements of sunflower oil from Russian sources. Cooperation with ‘Mamun’</td>
</tr>
<tr>
<td></td>
<td>Nestlé</td>
<td>In 2003, the Perm branch of Cereal Partners Rus drew up a development strategy for local cereal suppliers. The cereal factory in Perm in cooperation with local wheat suppliers plans to make a 100% transfer to the use of local wheat in 2015</td>
</tr>
<tr>
<td></td>
<td>Toyota</td>
<td>Programme of safe disposal of used cars in Russia</td>
</tr>
<tr>
<td></td>
<td>Coca-Cola</td>
<td>Placins is the first and only Russian plant processing used plastic bottles in a clean manner. Example of Russia’s first public-private partnership with the Submonterskig administration in the field of collection and recycling of plastic packaging</td>
</tr>
<tr>
<td></td>
<td>IKEA</td>
<td>Iksa collects used batteries and energy efficiency bulbs for further safe disposal in all Iksa malls</td>
</tr>
<tr>
<td></td>
<td>Tetra Pak</td>
<td>Lobbying activities as a RUSFEC member on issues concerning consumer waste and sustainable packaging</td>
</tr>
</tbody>
</table>

Source: Company websites and other open sources, SKOLKOVO IEMS
SIEMENS BUSINESS CASE: HIGH QUALITY AND ENERGY-EFFICIENT TRAINS MADE IN RUSSIA

Situational analysis
In 2009 Russian Railways (RZD) signed the first contract with Siemens on the development and delivery of five-unit trains on the basis of a technological platform known as Siemens Desiro [25], which is a family of diesel or electric multiple unit passenger trains [26]. This is a very popular sustainable product that became very common in European cities, thanks to its flexible design, which can be adjusted to different geographic and infrastructural conditions. The Desiro design offers a high level of safety, reliability, energy efficiency, and quality combined with optimised costs.

The flexibility of the design has most probably allowed the company to develop the sustainable product specifically for Russian conditions at a reduced cost. When modifying the Desiro platform for Russia, Siemens has adapted many construction decisions from Russian experts involved in the organisation of high-speed railways in Russia, and also from the experience accumulated during the development and operation of the ‘Sapsan’ high-speed trains [25]. RZD has given the new model of trains the name ‘Lastochka,’ which means ‘little swallow’ in Russian.

Activities
Almost from the very beginning, a decision on the localisation of production of ‘Lastochka’ in Russia was made. One of the main incentives for Siemens to localise the production seemed to involve the reduced customs duties [27]. Today the trains are produced at Ural Locomotives, which is a joint venture between Siemens and Sinara Group, established in 2010 in Sverdlovsk Oblast. The production of the ‘Lastochka’ trains at Ural Locomotives started in 2013 [26]. As of June 2015, the first ten ‘Lastochkas’ made in Russia were released and certified. Although the supply of trains from Germany will continue until 2020, Ural Locomotives plans to gradually increase the level of localisation, which will reach 80% in 2017 [28]. It is planned that more than 100 Russian production companies will supply components for ‘Lastochka’ [29].

Ural Locomotives also produces other energy-efficient equipment for trains and electric locomotives with a long life span. For example, the successful application of the asynchronous traction drive by Siemens allows achieving high traction force with estimated specific energy consumption for traction that is 15-20% lower than in the latest Russian models, and with a five times longer run time between repairs for the locomotives [29].

Benefits and results
The use of Siemens-designed and produced trains by RZD and localisation of their production in Russia is arguably a ‘win-win’ situation, as it is a successful business case for the producer, it is a sustainable product that brings benefits to the customer (RZD), and potentially it has positive impact on the customers of RZD and the natural environment.

Siemens receives the following benefits:

- RZD is currently a large-scale customer with even more potential, as Russia is a big country with a relatively well-developed railway infrastructure;
- Application of the flexible Desiro design has allowed Siemens to save on production costs;
- Localisation of the production of ‘Lastochka’ has allowed Siemens to reduce customs duties;
- Purchasing components from Russian suppliers allows the reduction of costs at a time when the Russian ruble is experiencing volatility.

RZD as a consumer of sustainable products offered by Siemens receives the following benefits:

- Trains supplied from Germany and produced in Russia have an energy-efficient, safe and price-effective design, specifically developed for Russian conditions of harsh winter and working on a railway network with a width of 1520 mm [25].
- The ruble depreciation generated some financial benefits, as the actual payments for technical support of the trains to Siemens were at least 60% lower than the estimate one year earlier, according to an announcement by RZD in June 2015 [30].
- Other benefits to the external environment are as follows:
  - The operation of the Siemens trains addresses a wide range of challenges faced by the Russian railway operator: increased passenger flow, low quality of transportation, low safety, low efficiency of older trains, and environmental problems [26].
- The energy-efficiency of the Siemens trains results in the reduction of GHG emissions,
- Localised production creates local jobs and potentially supports around 100 Russian suppliers of parts for the trains, as currently estimated [29].

SUSTAINABLE SOURCING

Today multinational and local companies have to make public commitments to control their entire supply chain in response to a growing call from the public for products that are produced in a socially and ethically responsible manner. In particular, there is growing pressure on MNOs to minimise their environmental impact throughout the whole supply chain and reflect this commitment in their purchasing decisions. In this context, sustainable sourcing is the process by which organisations purchase supplies by taking into consideration the following factors:

- The operation of the Siemens trains directs to differentiating certified products, the consumers become more responsible and credible certification schemes in an attempt to advance sustainability in global supply chains, and also known as a Suppliers Code of Conduct.

Those companies that enforce their internal sustainability standards on suppliers usually ensure compliance via the audit mechanism and occasionally via third-party assessment. With regard to sustainable sourcing, the best practice for key decision-makers is to apply the same principles that guide their core business choices. In that case, sustainability can become a source of opportunity, innovation and even competitive advantage. Certain companies go even further and make sustainable sourcing central to the value proposition to their customers.

Out of all the business processes, the sustainability priorities related to sourcing, procurement and supply chain management have been localised by the sampled companies to a great extent. Whenever sourced resources become ‘material’ for the core product, and whenever ‘material’ is related to these resources create high operational risks for the business, companies start viewing suppliers as an integral part of their core businesses.
The ‘materiality’ concept is of high relevance for the food and beverage industry, as it is the world’s largest procurer of agricultural commodities. Therefore, sourcing decisions represent significant business risks for these companies. Today food and beverage companies face the relatively new threat of raw materials scarcity resulting from climate change, and that makes them even more inclined to shift towards a more sustainable management of supplies in order to ensure their future viability.

In Russia, multinational corporations’ decisions to extend agricultural support programmes to smallholder farmers and other suppliers are primarily determined by the global headquarters’ declared commitment to incorporate sustainability throughout their supply chains. The range of sustainable sourcing initiatives implemented in Russia spans from procuring supplies from local farmers to various multi-year training and financial support programmes extended to local suppliers.

While globally the discussion on sustainable sourcing has shifted towards the traceability aspect of raw commodities (i.e. the ability to trace them throughout the supply chain), which has to be verified either by the global certification scheme or company’s internal sustainability code, in Russia sustainable sourcing entails primarily localisation and sourcing from local farmers. Virtually all sampled companies from the food and beverage sector report on the localisation percentages in the sustainable agriculture and beverage sector report on the localisation and sourcing from local farmers.

McDonald’s also follows the vertically integrated approach, organising and controlling the entire supply chain from the field to the restaurant counter. All these principles allow the company to implement riskier projects, which are usually investments with a long payback period and a high degree of uncertainty.

**Benefits and results**

As of 2014 the company sourced produce from approximately 160 Russian suppliers, with the total annual procurement amounting to 28 billion rubles ($150,000 into the enterprise’s working capital) [52]. Localisation and sourcing from local suppliers have proven to be sound business models for McDonald’s in Russia due to the following reasons:

- Focus on long-term partnerships vs. annual tenders,
- Price stability for the company and its suppliers,
- Longer planning horizon (3-10 years), which guarantees future demand,
- Control throughout the vertically-integrated* supply chains,
- Minimisation of foreign exchange risks,
- Elimination of speculative price fluctuations throughout the year,
- Enhancement of the company’s competitiveness, as it is less dependent on sanctions and various trade restrictions.

* In this context vertical integration does not entail owning the supply operations but rather controlling them.

**McDonald’s Business Case:**

**Sourcing 85% of its products from 160 local suppliers**

**Situational analysis**

In the early 1990s, McDonald’s was at the crossroads: it either had to build its own greenhouses or outsource the processes to external suppliers. McDonald’s opted for the second option. In 1994, four years after McDonald’s opened its first restaurant in Moscow, the company Belaya Dacha won the tender for the exclusive right of supplying vegetables and lettuce to all McDonald’s restaurants in Russia and Belarus. After the fall of the Soviet Union, the Belaya Dacha enterprise was experiencing a severe crisis, so McDonald’s had to make an initial investment of $150,000 into the enterprise’s working capital, an amount that the supplier needed in order to fulfil the tender terms.

**Activities**

McDonald’s did not prioritise localised sourcing as part of its 2020 global aspirational goals, as the company’s priorities included only a few commodities that had to be sourced in a sustainable manner, namely coffee, palm oil, and beef and fish. However, the company has succeeded in localising more than 85% of its sourcing in Russia [51], with the exception of bacon, orange juice concentrate and French fries, which are still imported. In Russia McDonald’s applies the tailor-made vs. off-shelf approach in its requirements towards suppliers. This denotes supplying customised commodities and installing customised processing procedures in line with the standards of the master partner – McDonald’s. McDonald’s sets high standards for the suppliers, requiring them to obtain certificates verifying the rational use of raw materials. The company often supports its suppliers throughout this process, as illustrated by the example of its partnership with Belaya Dacha. With regard to health & safety standards, the company enforces rigorous compliance by facilitating checks along the entire supply chain: independent audits by external providers, visits and inspections, and internal audits conducted by the McDonald’s quality and control department.

Another concept that the company applies is the ‘chair on three legs’ principle, which aims at building long-term cooperation with partners instead of organising tenders on an annual basis, as well as maintaining sustainable price levels over the long term. McDonald’s is able to build long-term relations with its suppliers thanks to the longer planning horizon of 3-10 years. McDonald’s also follows the vertically integrated approach, organising and controlling the entire supply chain from the field to the restaurant counter. All these principles allow the company to implement riskier projects, which are usually investments with a long payback period and a high degree of uncertainty.

**Belaya Dacha**

In 1994, four years after McDonald’s opened its first restaurant in Moscow, the company Belaya Dacha won the tender for the exclusive right of supplying vegetables and lettuce to all McDonald’s restaurants in Russia and Belarus. After the fall of the Soviet Union, the Belaya Dacha enterprise was experiencing a severe crisis, so McDonald’s had to make an initial investment of $150,000 into the enterprise’s working capital, an amount that the supplier needed in order to fulfill the tender terms.

Almost all identified corporate leaders in the FMCG sector refer to the financial rationale underlying global companies’ decisions to localise sourcing in Russia. The main listed factors driving localised sourcing are cost saving and risk minimisation, in particular, foreign exchange (FOREX) risks. The latter is important in the light of the current economic situation of high currency fluctuations and import sanctions. Global and local companies are able to secure price stability as a result of these long-term partnerships with the same ‘master’ suppliers, while the suppliers benefit due to the stability of demand for their products. Although MNCs began to grapple with the reality of economic sanctions only in 2014, localisation of their supply chains has been a gradual process that was initiated after the global companies entered the Russian market a decade or two ago.

**McDonald’s Business Case:**

**Sourcing 85% of its products from 160 local suppliers**

**Situational analysis**

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**Benefits and results**

As of 2014 the company sourced produce from approximately 160 Russian suppliers, with the total annual procurement amounting to 28 billion rubles ($150,000 into the enterprise’s working capital) [52]. Localisation and sourcing from local suppliers have proven to be sound business models for McDonald’s in Russia due to the following reasons:

- Focus on long-term partnerships vs. annual tenders,
- Price stability for the company and its suppliers,
- Longer planning horizon (3-10 years), which guarantees future demand,
- Control throughout the vertically-integrated* supply chains,
- Minimisation of foreign exchange risks,
- Elimination of speculative price fluctuations throughout the year,
- Enhancement of the company’s competitiveness, as it is less dependent on sanctions and various trade restrictions.

* In this context vertical integration does not entail owning the supply operations but rather controlling them.
PRODUCT FOOTPRINT

As has been discussed in the previous section, one of the definitions of a sustainable product is a product with a low post-consumer footprint. While in more mature economies, sustainability is incorporated in all phases of the product lifecycle, reflecting the growing importance of the circular economy concept, in Russia global and local companies still fail to adopt a holistic picture with regard to the production process. This is supported by the observation recorded within this research framework, as all noted impactful case studies are attributable to different MNCs. So companies tend to prioritise only one or two supply chain functions, e.g. raw materials sourcing or waste disposal at factories, and none of the sampled companies can be recognised as a producer of a ‘sustainable’ product in accordance to the all-encompassing definition of this term.

Depending on the existing business rationale, certain companies opt for the minimisation of the environmental footprint at the product disposal stage. That’s why they became the pioneers in implementing sustainability initiatives related to the sustainable management of consumer waste. For example, Toyota implements a sustainability program aimed at reducing the environmental impact of its products throughout their entire lifecycle. This includes the development of more environmentally friendly materials, more efficient production processes, and improved waste management strategies. Toyota’s approach to sustainability is not only focused on reducing its own environmental footprint, but also on encouraging other companies to follow suit.

BUSINESS CASE: RUSEPEC AND THE PRIVATE SECTOR’S ROLE IN CONSUMER WASTE MANAGEMENT

Situational analysis

The waste segment is one of the most problematic segments in Russia. It is the only sector in Russia where current emissions, comprising 3% of Russia’s total greenhouse gases, exceed the 1990 level [35]. The main reason for this alarming level is related to a sharp increase in solid waste volumes in the past decade. Also, management of this solid waste is underdeveloped in Russia, with only 5-4% being processed, and the rest being directly sent to landfills. Improved waste management, mainly through better recycling, could reduce emissions from the waste sector by more than 80%. Recycling is the largest abatement measure in the waste sector. Its implementation could reduce annual emissions by 55 metric tons of CO2 (MT) in 2010 and indirectly could save about 6 metric tons of carbon equivalent (MTCE) of energy per year.

Law on consumer waste

The Federal Law №458-FZ “On Amending the Federal Law №89-FZ ‘On Waste from Production and Consumption” as of December 29, 2014, which eventually entered into force on July 1, 2015, has provoked serious disputes between manufacturers and waste processors. The new legislation is primarily focused on optimising the management of consumer waste, while not addressing the issue of manufacturing waste. Within the framework of the new legislation, producers and importers are made liable for the waste generated as a product footprint at the household level. According to the new decree, Russian companies become subject to paying an environmental fee unless they opt for one of the following options:

- Recycle the waste themselves, using their own infrastructure;
- Contract an external waste management operator or a regional recycling operator; or
- Consolidate efforts with other market players and establish an association that signs a contract with an external waste management operator or a regional recycling operator.

The initial document stipulated that the companies had to declare their level of manufactured output by October 15, 2015, and pay the respective environmental fee 5 days later, manufactured output by October 15, 2015, and pay the respective environmental fee 5 days later, even though regulatory standards concerning disposal methodologies had not been formalised by that date.

Such legislative novelty raised concerns within the business community, as initially the government authorities pledged to introduce a transition period and keep the fee rates at zero level until 2016. Russia’s Association of Trading Companies and Manufacturers of Consumer Electronics and Computer Equipment considered the date of October 15, 2015, which appeared in the government ruling, to be strictly technical [34]. Enterprises engaged in waste collection and processing argued against the need for the transition period. These market participants see the opportunity to use 100% of their own production capacities, whereas the current utilisation rate is only 50% [35]. Eventually, lobbying activities resulted in the postponement of the law’s entry into force to 2017. According to the new amendments, companies will have to report their 2016 level of manufactured output by February 1, 2017.

The final fee level was defined as a rate calculated on the basis of one ton or per one unit of output without VAT. According to the Governmental Decree №284 as of April 9, 2016, the environmental fee rates were set for 56 groups of products, with batteries (35,476 rubles/ton) and electrical goods (26,469 rubles/ton) being assigned the highest rates, and paper products (2,378 rubles/ton) – the lowest rates.

Some industrial associations have objected to the methodology of calculating the environmental fee rate, which they claimed should have been calculated based on the cost of product disposal, and not as a percentage of its price, total output or manufacturing cost. According to Velkaterina Astafieva of Rusltransm, “Raising the environmental fee rate to the cost of goods sold does not motivate producers to invest in more environmentally friendly packaging, because it automatically leads to higher product prices and higher recycling costs… manufacturers of packaging for some socially important products, such as milk and dairy products (PET, Tetra Pak) can become subject to such environmental fees. If the prices of these products increase, the consumer will react very sensitively” [36].

The Ministry of Economic Development estimated the additional cost burden for the affected businesses, which would total at least 50-60 billion rubles without taking into account indirect costs [37]. Raised revenues should be channelled into the development of the solid waste recycling industry. “Regulators should introduce regulations and fees for individual product groups, depending on the availability of waste collection facilities and not the processing facilities. There is no system of separate collection of plastic and glass. Even if the treatment capacity is enough to process this amount of waste, you would need to make a lot effort to collect the waste separately,” according to the representative of the Association of Trading Companies and Manufacturers of Consumer Electronics and Computer Equipment (RATEK) Anton Guskov [37]. However, there are still no appropriate government legal acts, including regulations on the disposal of the waste from production, which is subject to the necessary utilisation) for different types of waste and the fee rates.

RUSEPEC

Established in 2005, the non-profit association Industry for the Environment (RUSEPEC) aims to develop and promote proposals for the adoption of environmentally safe advanced packaging technologies, including environmental and cost-effective management of product waste. The association was established by several multinational corporations, including Coca-Cola HBC Eurasia, PepsiCo, Procter & Gamble, TetraPak and Unilever.

RUSEPEC intensified its lobbying efforts, as it actively represented the views of industrials and corporations in the recent discussion, concerning the newly adopted Federal Law ‘On Waste from Production and Consumption.’ Since 2005, RUSEPEC members have actively participated in the development of the concept of extended producer responsibility and some of the law’s provisions. Although the association lobbied for the law’s enactment, RUSEPEC has not been fully satisfied with the formalisation of the concept in the legal format. Some of the law’s provisions appear highly ambiguous and controversial, such as set declaration mechanisms and inherent competitive disadvantage in comparison to imports from other countries of the Eurasian Economic Union.
Private sector initiatives

Even before the official enactment of the Law on Consumer Waste in Russia, some multinational companies started introducing sustainability initiatives focused on minimising the post-consumer footprint. Product footprint is recognised as a material issue primarily for those industries where packaging constitutes a large proportion of the core product. That has been the case for such MNCs as Tetra Pak and Coca-Cola.

The very nature of Tetra Pak’s product is sustainable, as 76% of the raw materials used for packaging are made out of renewable natural resources. Almost 100% of cardboard packaging manufactured in Russia and Ukraine carries the FSC certification logo. In line with the extended producer responsibility concept, the company had prioritised the goal of minimising the impact from its products even before the new legislation on consumer waste entered into legal force. In the past Tetra Pak has successfully implemented several campaigns, such as collection and utilisation of used packages from liquid products on the sites of X5 retail stores and office premises of some companies, such as Yandex, Deutsche Bank and Danone.

As for Coca-Cola, in 2014 the company carried out a major initiative with the intention of minimising the footprint of the company’s bottles. For example, the company launched an innovative eco-friendly BioBottle (PlantBottle) production technology, which allowed for the use of up to 50% of vegetative raw materials instead of oil, which is a non-renewable resource. This technology significantly reduces the usage of oil and allows for the decrease of carbon dioxide emissions during the production stage. The company announced its plans to switch to the production of lightweight bottles of other types in the next few years. The implementation of this initiative would save the costs associated with the purchases of glass material and reduce carbon dioxide emissions into the atmosphere.

In 2011 Coca-Cola, jointly with the plant Plarus and the administration of the Solnechnogorsk district of the Moscow region launched a large-scale project on recycling plastic waste within one given local community. Within the project framework there is a fully functioning system of separate plastic garbage collection in Solnechnogorsk, as more than 80* special containers have been installed around the city. Plarus is an innovative production site that is the first and only plant in Russia processing used plastic bottles with the use of bottle-to-bottle technology in a clean manner, i.e. “new-bottle-out-of-a-used-bottle” technology. The European technologies installed at the plant allow processing previously used plastic bottles into raw material, i.e. granulated polyethylene terephthalate, which is used for producing packaging material. This flagship project represents Russia’s first successful example of a public-private partnership in the field of collection and recycling of plastic packaging, as it actively involves the city government, representatives of the processing industry and one of the world’s largest soft drinks producers.

As for other companies, many have been utilising such initiatives as the European technologies installed at the plant allow processing previously used plastic bottles into raw material, i.e. granulated polyethylene terephthalate, which is used for producing packaging material. This flagship project represents Russia’s first successful example of a public-private partnership in the field of collection and recycling of plastic packaging, as it actively involves the city government, representatives of the processing industry and one of the world’s largest soft drinks producers.

THE FOLLOWING 7 COMPANIES ARE IDENTIFIED AS THE CORPORATE LEADERS THAT INCORPORATE SUSTAINABILITY IN THE VERY CORE OF THE CORPORATE DNA, I.E. MAIN BUSINESS OPERATIONS, SUCH AS MANUFACTURING:

- Coca-Cola
- Heineken
- Lafarge
- IKEA
- Unilever
- Saint-Gobain
- PepsiCo

Today climate change and greenhouse gas reductions are the paramount themes in society, including within the business community. International agreements such as the Kyoto Protocol and national and regional regulations critically affect business through pressure from stakeholders, including governments and consumers. At this stage it is not clear whether the Paris Agreement achieved at the United Nations Climate Change Conference in December 2015 would fully enter into force in Russia; however, the fact that agreement was reached on the reduction of emissions is a stimulating factor for Russian businesses to continue focusing on matters related to climate change and GHG reductions.

While in corporate sustainability strategies at the global level the declared priorities are more focused on GHG reductions and abatement, in Russian strategies the main subject is much more often presented as ‘energy efficiency.’ One of the main energy-related legislative documents is the state programme “Energy Efficiency and Energy Development for 2015–2020,” which was approved in April 2015 and that was designed to ensure reliable provision with fuel and energy resources, enhanced the energy efficiency and reduced the environmental impact of the fuel and energy sector. The programme objective was to reduce energy intensity of GDP by 40% by 2020 compared to 2007.

The Energy Strategy of Russia until 2030 also sets an ambitious target for installed renewable electricity generation to reach 4.5% by 2020. Reaching this target would require approximately 22 GW of new installed capacity and displacement of more than 36 million tons of CO2 per year, representing approximately $44 billion in capital investment. Furthermore, Russia, in comparison with many other countries, is significantly less accomplished with regard to climate change and the Kyoto Protocol. For example, Russia has failed to fully utilise the Kyoto Protocol mechanisms such as Joint Implementation and emissions trading.
At the same time, when the companies address these issues, they consider not only the financial and reputational benefits from GHG reductions, as energy efficiency presents a direct business case to the companies due to the cost savings. Energy consumption and energy generation cost money to the company, and by cutting the consumption of electricity, using alternative fuels such as waste for energy generation, and implementing new technologies in production, the companies potentially reduce their expenses.

That was the case for the sampled companies that implemented best practices. While implementing climate change and energy efficiency initiatives, those companies attempted to achieve two main goals: to address the requirements of their head offices on GHG reductions and cut costs of operation. It should be noted that for many of the sampled companies, the effects of energy saving and cost reductions have been more important than GHG reductions.

According to the analysis, the issue of CO2 and Energy is, on average, one of the most popular issues of the global corporate sustainability strategies of the 50 selected companies along with the issue of Sustainable sourcing, value chain and supply chain management. At the national level a smaller number of MNCs address this issue.

The sampled companies have identified the following problems with regard to climate change and energy efficiency. CO2 emission reduction has been specified as one of the most challenging targets for companies at both levels, globally and nationally. It has been emphasised that climate change is an immediate threat for agriculture, and therefore, presents a threat to activities of companies that operate in the agricultural sector, including companies in Russia. On the other hand, when a company does not have energy-intensive production and its own fleet, the problems of greenhouse gas emission reduction are not as pressing, and the task on energy efficiency was mostly related to reducing electricity bills. Also, normally a company does not take responsibility for supply chain emissions, but only for its own emissions.

Another finding of the Strategies and Priorities Localisation Analysis is that the localisation rates of the issue of CO2 and Energy differ by sector. As business cases in Russia in the area of concern are most often connected with lower electricity bills and use of cheaper fuels, the differences in energy intensity of the production processes of different sectors of the 50 selected companies could be the explanation for the differences in the average localisation rates by sector.

The second issue identified during the Strategies and Priorities Localisation Analysis and directly connected with the theme of climate change and energy efficiency is the use of non-fossil fuels (e.g. waste) in energy generation. This issue, due to its specialised nature, is not popular at both global and Russian levels. Construction companies use waste materials as fuel during the process of cement production. Also, another company from the furniture, pulp & paper sector - IKEA - is currently in the process of installing a biomass boiler at its factory, which can be considered as use of non-fossil fuels that addresses the issue of CO2 and energy.

Most likely the main driver for implementing initiatives related to climate change and energy efficiency has been a signal from global headquarters. In case of the construction materials companies, addressing the global goal of increasing the share of secondary materials in energy generation became that very factor, and in the case of IKEA, it was a reduction in the carbon footprint of the IKEA factory. Thus, the most interesting examples of the initiatives related to climate change and energy efficiency are those companies utilising energy-intensive production processes. Therefore, the Lafarge and IKEA business cases have been selected (see below).

**LAFARGE BUSINESS CASE: ALTERNATIVE FUELS TO ENERGY SHOP AT THE FERZIKOVO PLANT**

**Situational analysis**

Launched in 2014, the cement plant in Ferzikovo is the largest investment project of the Lafarge Group in the Russian market. It aims to meet the demand of the construction sector of Moscow, the Moscow region, Kaluga, Tula and Serpukhov. A modern processing line with a capacity of two million tons of cement per year has been designed in accordance with the best available European technologies of energy saving, safety and minimisation of environmental impact. On June 1, 2015 an alternative fuels shop at the Ferzikovo plant opened. It uses municipal and industrial waste as fuel for the kiln plant as a partial substitution of natural gas [58].

**Rationale**

The decision to open an alternative fuels shop was made in line with one of the company’s Sustainability Ambitions 2020 under the ‘Building the circular economy’ priority ‘Non-fossil fuels. Use 50% of non-fossil fuels in our cement plants by 2020 (30% of which should be biomass)’ [39]. This decision is also in line with the strategy of the newly created LafargeHolcim company: “Provide Geocycle solutions and increase the use of biomass” [40]. Most likely, the aspiration to follow the best practices in cement production, the company’s global sustainability policy and, possibly, the influence of the head office became the main incentives for the company’s decision to implement the initiative in Russia. It should also be noted that the use of alternative fuels would allow Lafarge to improve economic efficiency of cement production, as energy costs account for almost one-third of the total cost of cement production [41]. The second incentive was probably the one of potential savings.

**Activities**

The project plan was as follows. As an alternative fuel at the plant, it was planned to use sorted and shredded municipal and industrial waste (paper, cardboard, plastics, textiles, rubber, wood), as well as used tires. The plant’s clinker kiln would provide a complete and environmentally safe combustion destroying 99.99% of organic matter without the formation of ash, and without any impact on the quality of the cement. All waste materials would be screened against a number of criteria (size, moistness, and calorific value), ensuring environmental safety of the fuel used and its compliance with production specifications. Raw materials would be selected and controlled by the supplier, and sorting would be made at the plant. Alternative fuel would be stored in a closed warehouse and fed into the furnace cinder via a covered conveyor. It was planned that by the end of 2015, the replacement of natural gas with alternative fuel would be 15%, and by 2020 would reach 45% [41].

**Benefits and results**

The project has been supported by the Kaluga Oblast government [42] and accomplished in partnership with a waste supplier. The implementation of the business case has brought the following material and non-material benefits to the company:

- Material savings: Improved production efficiency and savings on energy costs.
- Reputational benefits: Support of company’s Sustainability Ambitions 2020, the priorities of the new joint company LafargeHolcim, and the company’s slogan “Building Better Cities” by addressing the municipal waste disposal problem in Kaluga Oblast.

The following potential positive impact on the external environment can be expected as a result of the implementation of the Lafarge business case:

- Addressing the greenhouse gas emissions problem, while saving non-renewable fuel such as gas and coal;
- Addressing the waste disposal problem, significant for the Kaluga Oblast, by safe utilisation of municipal and industrial waste, in contrast, using landfills would otherwise pollute air, water and soil;
- Serving as an inspiring example for other cement plants in Russia, in particular, in Kaluga Oblast [42].

The Lafarge Alternative Fuels to Energy business case in a good example of an MNC’s successful introduction of a sustainability initiative in the area of climate change and energy efficiency, despite the underdeveloped infrastructure of separate waste collection or sorting and lack of other examples of similar initiatives.
OPERATIONAL EFFICIENCY

The process of production is all about operational efficiency. The companies have the following incentives to improve operational efficiency: to reduce the costs or production; to meet the requirements of headquarters (in the case of MNCs); to comply with existing legislation, and to be ahead of future changes in legislation in order to hold a leadership position when the legislation is introduced.

Waste & Recycling, Water, Green Buildings and Reducing Production Footprint are the issues identified during the analysis, which are related to the Operational Efficiency theme. All four issues are significant in the Russian agenda of the selected companies. With regard to global agendas, Reducing Production Footprint and Green Buildings are not frequent issues, while Waste & Recycling and Water are also important there. It is important to note that only the technological companies from the entire sample have a priority within the Reducing Production Footprint issue at the global level, and all of them address this issue in Russia. Despite the fact that companies from other sectors do not have a declared global priority specifically with regard to Reducing Production Footprint, many of them introduce the initiatives on footprint reduction outside of the scope of the global agenda.

Green Buildings are a part of the operational efficiency theme, although it is also related to the theme of climate change & energy efficiency, as one of the main requirements for green buildings in most certification schemes is energy efficiency. However, the requirements often also focus on reduced water usage, decreased waste generation and improvement of other environmental indicators. In Russia there are examples of companies that demonstrate leadership in the area of Green Buildings, both within the company and worldwide. The research has demonstrated that the companies have the following rationale for implementing green building initiatives: to demonstrate leadership within a company at the global and country levels, as well as among other market players; to save energy costs; and to satisfy the requirements of a parent company.

PEPSICO BUSINESS CASE: LEED-CERTIFIED BUILDING OF THE AZOV SNACKS PLANT

Situational analysis

Launched in 2014, the cement plant in Ferzikovo is the largest investment project of the Lafarge Group in the Russian market. It aims to meet the demand of the construction sector of Moscow, the Moscow region, Kaluga, Tula and Serpukhov.

LEED (Leadership in Energy and Environmental Design) is a green building certification programme that recognises best-in-class building strategies and practices. This certification system covers energy conservation, efficient water consumption, reduction of CO2 emissions, and an improvement in internal environmental indicators and practices that promote reduced consumption of resources. The first project that was awarded the LEED certificate in Russia was the factory of Sweden’s SKF group (Gold certification), which produces railway bearings in the Tver region. The project was fully designed by the foreign developer (AECOM), and it included natural lighting in 90% of the entire floor space during daylight hours and achieved 100% reuse of all water. Another manufacturing site outside of Moscow that has also been LEED-certified is the plant of Hamilton Standard-Nauka (which received a Silver certification).

Rationale

PEPSICO is committed to saving energy through green building and design worldwide, and its head office encourages all PEPSICO’s facilities to meet LEED standards, which are among the most rigorous benchmarks for green building design, construction and operation in the world [43]. In 2012 the Azov snacks plant (in the Rostov Region) became PEPSICO’s first Russian facility to achieve LEED certification [44]. The company had the following incentives to launch the green building initiative:

- To address the ecological sustainability targets assigned by the head office for PEPSICO in Russia;
- To reduce consumption of electricity, water and waste generation, and therefore, to reduce the corresponding bills;
- To demonstrate leadership inside the PEPSICO company.

Activities

The Azov snacks plant was a greenfield project for PEPSICO. As of 2010, the company invested more than $100 million into the construction of the second plant producing snacks in Russia, which commenced in 2007 and was completed in 2010. According to the company estimates as of 2010, the total investments into all plant development projects, including a programme of supporting local farmers, were around $170 million.

During the construction stage, PEPSICO applied PEPSICO’s Global Sustainable Engineering Guidelines (SEGs), which are based on LEED standards. In accordance with the Federal Law ‘On Energy Efficiency’ in 2012 PEPSICO conducted energy audits and certification of facilities, and as one of the results, the Azov snacks plant achieved LEED certification.

Benefits and results

The project has resulted in significant reductions of electricity, water consumption and waste generation. LEED certification accomplishment has also been very beneficial for a company from a PR point of view, as well as from the point of view of positioning of PEPSICO Russia within the whole PEPSICO group. The business case has become a win-win situation, and even with a rather unfavourable external regulatory environment, it was possible to demonstrate an example of operational excellence.

The following potential positive impact on the external environment can be expected as a result of implementation of the business case:

- Reduction in electricity and water consumption and waste generation leading to reduced GHG and traditional pollutants emissions and discharges, including emissions and discharges from landfilling of waste;
- The Azov snacks plant serves as a leadership example inside PEPSICO, and among other Russian companies.

“...”

Rationale

Following the introduction of the Unilever Sustainable Living Plan (USLP) in 2010, the company committed to halving the environmental footprint of its products by 2020. While the goal of reducing environmental impact included targets related to different natural resources and material issues, such as greenhouse gases, water, waste and sustainable sourcing, each of Unilever’s country offices was granted a certain amount of liberty in selecting focus areas from the global agenda that it opted to prioritise at the national level.

In relation to the environmental footprint priority, the regional Unilever business unit of Russia, Ukraine and Belarus decided to focus on the ‘zero waste to landfill’ approach, as there was significant potential for corporate waste...
management activities to generate value-added as a bottom-up measure, and, in general, the waste-related target was more relevant and material for developing markets, such as Russia.

Although initially the company set 2020 as the official deadline for achieving all sustainability targets set in the Unilever Sustainable Living Plan, with regard to switching to the ‘zero waste’ model, the company globally revised the deadline, setting a new threshold at the end of 2014. At the beginning of 2014 the senior management of the Russian country office adopted the revised deadline and communicated it to all production units. The continuity of all manufacturing sites was conditional on the achievement of the zero waste to landfill levels by the end of 2014.

The ‘just-do-it’ requirement was imposed on all Unilever country offices without much adjustment to the local reality, including the Russian country team, which had to act promptly and innovatively in order to find the solution to meet the global target. The KPI related to achieving the ‘zero waste to landfill’ target was assigned to the supply chain team of the Russian country office.

**Situational analysis**

The waste segment has historically been the source of environmental distress as measured by the high emissions level from the Russian waste sector. Even today, most of the infrastructure related to recycling of industrial and household waste is severely underdeveloped in Russia. The key objective of Unilever Russia was to introduce the culture of ‘zero waste’ in its own system of production and logistics across the network of six production sites. For Unilever, the concept of ‘zero waste to landfill’ denoted that all industrial solid waste was to be processed and recycled into secondary raw materials rather than being dumped as before.

Even prior to the launch of the ‘zero-waste-to-landfill’ initiative, Unilever had rigorously complied with the Russian regulations on industrial waste treatment, and disposed all its waste accordingly. Within the USLP framework, some preliminary work with regard to optimising the waste amount had been done even before 2014. For example, between 2011 and 2013, the company introduced basic waste sorting procedures (plastic and cardboard) and began recycling some of the waste, but still sent most of it to a landfill. The revised USLP required the Russian country team to step up efforts and impose even more stringent requirements with regard to industrial waste.

**The SR vision**

The project was based on five key milestones\(^*\) that defined the applied methodology:

- **Reject/Eliminate** – Complete elimination of this type of waste from the manufacturing process;
- **Reduce** – Reducing waste through the modernisation of the manufacturing processes;
- **Reuse** – Reuse of waste in production;
- **Recycle** – Recycling;
- **Recover/ Incentrate** – Waste disposal with the maximum generation of energy and extraction of necessary substances;

Before the setting of the five key milestones, there was one additional element – **Rest/ Landfill** – that required sending waste to a landfill, if there are no alternative means of disposal. This option is no longer acceptable under the ‘zero waste’ model.

The first project phase consisted of a two-week audit of the industrial waste structure, which was conducted by the Working Group in accordance to the SR approach.

**Activities and finance**

The first production site that implemented the ‘zero waste’ approach in Russia was Unilever’s tea-packing factory in St. Petersburg on January 1, 2013. As a result of the newly-introduced waste management procedures, tea waste and tea powder (4% of the factory’s total waste) were to be sent for recycling into pavement tiles, while residual material from tea bags (33% of the factory’s total waste) would be sent for processing into alternative solid fuels, which would then be used in cement production. Additionally, any residual waste items generated during the manufacturing process – including cardboard, film, scrap metal and wood pallets - were to be recycled for reuse.

The total investment cost of that project exceeded 20 million rubles, and the Russian country office did not have an allocated budget for that initiative at that time. So, in order to achieve the target in a timely manner, the Russian team first had to raise financing from the global team. Secondly, the team encountered the challenge of the limited availability of waste operators in the country, since prior to Unilever, no other Russian company had made public claims about switching to the ‘zero waste to landfill’ model.

Therefore, as the pioneer in that field, Unilever had to identify the appropriate players and potential business partners from scratch. The company had to search for regional waste operators that specialised in recycling waste into new products or energy. Based on the company’s experience, finding the appropriate operators proved to be a challenging task, as the landscape of waste operators was not homogeneous, and depending on the type of waste, certain recycling companies predominated over others. For example, there were more waste operators recycling packaging cardboard than food, so Unilever had to seek alternative solutions for certain types of waste and in certain regions. Nevertheless, in general, the tendering process for all six factories was marked by the participation of few bidders, as not many Russian companies specialise in offering services in waste recycling. Nevertheless, a limited supply of waste operators was not the most pressing barrier for the company, and by September 2014, the key service providers had been contracted.

Depending on the type of waste produced by each of Unilever’s six Russian production sites\(^*\), the tendering process for the recycling companies was either more or less challenging, and eventually the entire business model of selling waste proved to be either more or less profitable.

\(^*\) Unilever operates a network of six factories in Russia: two factories producing personal care, home care and cosmetics, two factories producing ice cream, one factory producing tea and one factory producing food (spices, sauces, etc.).

\(^*\) Landfill is positioned outside of the SR framework.

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**Figure 19.** 5R Framework

Source: Academic research adapted by SKOLKOVO IEMS

**SCOPE OF SR framework**
Benefits and results

In Russia it took approximately 2 years in order to achieve that sustainability target, as by January 2015 all Russian production sites of Unilever had switched to the ‘zero waste to landfill’ approach.

In general, ‘zero waste to landfill’ has become a sound and impactful business case for Unilever Russia, as selling waste is currently another peripheral income source for the company. The average gross profit margin for all six factories is 10%.

On average, the income from selling waste produced by the production sites in Tula is twice as much as the project costs. The application of the ‘zero waste to landfill’ business model proved to be less profitable at the Kalina factory in Yekaterinburg due to the higher costs. In this region, there are no waste operators located within close proximity to the production site, and the factory has to transport waste, thereby generating a carbon footprint in addition to higher financial costs.

Furthermore, the opportunity cost of sending waste to landfill is often a fraction of the costs associated with waste recycling. The company sets expectations for all procured waste operators to provide services in a sustainable manner, i.e. to recycle waste appropriately. The company’s supply chain team organises audit inspections every three months to verify whether the company’s waste is recycled in accordance with the sustainability standards.

In terms of cost-benefit analysis, the Unilever country office has not fully claimed all the potential financial benefits generated by the ‘zero waste to landfill’ business case in Russia. While new legislation has been recently introduced in relation to consumer waste, no considerable fees and penalties are imposed on the producers of manufacturing waste in Russia. Once such legislation is introduced, only then would it become more beneficial for businesses to recycle waste rather than send it to a landfill. Once such penalties are raised - and it is likely to be a question of ‘when’ rather than ‘if’ - pioneers such as Unilever would be in a more favourable position due to their forward-thinking approach.

Russia’s country office has contributed to the early achievement of the ‘zero waste to landfill’ target, and in January 2015, Unilever made an official announcement that the company had achieved the goal of sending zero non-hazardous waste to landfill from its entire global factory network. In the same corporate press release, the company reported that eliminating waste had resulted in more than 200 million euros of cost savings globally [46]. The next phase of ‘zero waste to landfill’ process will involve Unilever’s offices and warehouses, which are also expected to implement the waste recycling business practices. This defines the next ambitious target for Unilever Russia to address in the near future.

The following 7 companies are identified as the corporate leaders that incorporate sustainability in their external outreach activities with business partners, communities and public authorities.

<table>
<thead>
<tr>
<th>COMPANY NAME</th>
<th>BEST PRACTICE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Heineken</td>
<td>Implementation of the energy conservation programme TOP-10 Energy Savers</td>
</tr>
<tr>
<td>PepsiCo</td>
<td>Carbon footprint baseline model</td>
</tr>
<tr>
<td>BASF</td>
<td>AgriCenters: Network of centres where BASF develops and tests the most modern technologies of cultivation of agricultural crops, demonstrates their financial benefits &amp; offers experience exchange.</td>
</tr>
<tr>
<td>Saint-Gobain</td>
<td>Saint-Gobain Academy</td>
</tr>
<tr>
<td>Siemens</td>
<td>Implementation together with the Ministry of Energy of the project “Yekaterinburg - Energy Efficient City”</td>
</tr>
<tr>
<td>REA</td>
<td>The partnership between FSC Russia and REA dedicated to supporting the organizational development of the FSC, and development of the strategic objectives of REA, purchasing wood from Belarusian, Russian and Ukrainian responsibly managed forests</td>
</tr>
<tr>
<td>Tetra Pak</td>
<td>Cooperation with WWF and Tetra Pak on sustainable forestry and FSC certification</td>
</tr>
</tbody>
</table>

Source: Company websites and other open sources, SKOLKOVO IEMS

Partnerships & Associations

Irrespective of the nature of the existing barriers, global, regional, national, sub-national and local multi-stakeholder partnerships for development have proven to be the most effective elements of a roadmap for implementing sustainability strategies. These partnerships create win-win situations for all partners and maximise the impact. Local and global business performs a significant role in this type of partnership, ensuring business-wide standards of work and inflow of investments. At the same time, MNCs also benefit from forming alliances with other organisations – both public and private – enabling them to build new types of business models in their key markets.

In Russia stakeholder engagement is even more vital for success, as virtually all impactful initiatives must be fine-tuned manually due to the underdeveloped state of the business environment. Therefore, multinational and local companies need to collaborate and form partnerships in order to generate the critical mass for transforming the corporate landscape towards greater sustainability. Sampled MNCs form partnerships with external stakeholders, including Skolkovo (Unilever), and other academic institutions, FSC and WWF (Ikea) to UN agencies (Nestle) and state authorities (Schneider Electric). Additionally, some MNCs become members of various industrial associations, such as RusPEC™ (Tetra Pak), in order to participate in joint lobbying activities.

* More information about RusPEC is presented in the case study “BUSINESS CASE: RUSPEC AND THE PRIVATE SECTOR’S ROLE IN CONSUMER WASTE MANAGEMENT”
Industrial associations

The following associations have been identified as the most active players in the Russian sustainability arena and strategic partners of NNGC in this field.

Established in 1990, the Russian Union of Industrials and Entrepreneurs (RSPP) is probably the oldest association that has been operating in modern Russia. The union was established as a non-political organisation, which aimed at representing and protecting the interests of Russian business. Today RSPP brings together about 150 sectoral and regional associations of employers [47]. RSPP committees and commissions are considered by the government authorities as key platforms for debate on the most significant issues of economic, environmental and social development. Several RSPP committees and commissions were actively involved in the promotion of the sustainability agenda among Russian corporations. In particular, the Committee on Corporate Social Responsibility and Demographic Policies, the Committee on Environmental Management and the Committee on Energy Policy and Efficiency. The Committee on Corporate Social Responsibility and Demographic Policies played a significant role in supporting the evolution of non-financial reporting in the Russian business community, while the Committee on Environmental Management serves as a prominent discussion platform with regard to climate change, waste management and other operational efficiency-related issues.

While RSPP is focused primarily on representing the interests of Russian businesses, international companies operating in Russia cooperate under the umbrella of the Foreign Investment Advisory Council (FIAC). Established in 1994, FIAC functions on the basis of direct dialogue between the chief executives of investor companies and the Russian government with a focus on the crucial aspects of fostering a healthy investment climate. Chaired by the Prime Minister of Russia, the council includes 55 international companies and banks [48]. FIAC has several dedicated working groups that are of relevance for this research scope, namely, working groups on efficient use of natural resources in Russia (as coordinated by Exxon Mobil Corporation) and energy efficiency (as coordinated by Siemens and Saint-Gobain). These working groups are composed of FIA members, company officials and the heads of the respective ministries and agencies. In 2013 FIAC published a research paper, “The Impact of Foreign Direct Investment on the Socio-Economic Development of the Far East of Russia.”

One of the largest FMC associations in Russia is RusBrand, which is the Association of Branded Goods Manufacturers. The association was founded in 2002 by more than 20 leading consumer goods manufacturers. Today the association unites 55 Russian and international leading companies, and their total turnover constitutes 28% of all sales in Russia. RusBrand member companies represent the following industrial segments: food, tobacco and alcohol industry manufacturers; beauty products and health care products manufacturers; home care products manufacturers; clothes and footwear manufacturers; household appliances manufacturers; pharmaceuticals, and telecommunications. RusBrand lobbying and awareness-raising activities focus on establishing a constructive dialogue with all market stakeholders, as well as key state authorities. RusBrand priorities are positioned in the following areas: promoting competitive media management, contributing to constructive collaboration between branded goods manufacturers and retailers, supporting legal and administrative reform, and educating both the public and decision-makers on the positive value of brands. RusBrand is a member of the European Brand Association – AIM.

Another association that is of relevance for one of the sustainability-related elements of the Russian business environment is the Russian Green Building Council (RuGBC), which is a not-for-profit industry organisation dedicated to accelerating development and adoption of market-based green building practices. Established in 2009, RuGBC is a member of the World Green Building Council - the world's largest Green Building movement. RuGBC’s structure has two membership levels: individual and corporate, and corporate members include several multinationals that operate in Russia, such as Mott MacDonald, the Dow Chemical Company, Siemens, Holcim, Bayer Material Science, Celliers International, Philips, Jones Lang LaSalle, Rea, Tata Steel, etc. Some of the membership benefits include access to latest green building news, research and information about rating systems.

The non-commercial partnership League of Waste Paper Processors was established in 2012 in order to represent interests of the Russian companies that are engaged in the collection and recycling of waste paper. The creation of the self-regulating organisation has been governed by the Federal Law № 137 “On Production and Consumption of Waste.” The association unites 80 companies (as of 2016), which represent 85% of the waste paper processing industry in 6 federal districts of the Russian Federation. Some of the international companies have also joined the League of Waste Paper Processors, such as Knauf, SCA Care of Life and Hultamarks. The lobbying agenda of the association has included the following objectives: the introduction of a temporary ban on the export of waste paper, cancellation of the VAT and personal income tax, putting into practice by-laws (e.g. Federal Law № 456), extension of monitoring and analytical activities with regard to the industry coverage, and strengthening collaboration with other associations and unions. Partially as a result of the lobbying activities, the government resolution № 1372 “On the introduction of a temporary ban on the export of waste paper” for (Russian Federation)” was signed in December 2015.

BUSINESS CASE: RESPONSIBLE FORESTRY AND THE PRIVATE SECTOR’S ROLE IN THE EVOLUTION OF THE FOREST STEWARDSHIP COUNCIL CERTIFICATION IN RUSSIA

Forest Stewardship Council (FSC) certification serves as a verification of timber traceability from sources that are compliant with responsible forest management practices. Out of all existing international eco-certification standards, Forest Stewardship Council (FSC) is the most prevalent one in Russia, with a logo that is instantly recognisable by many Russian producers and consumers. In 2004, only 1.5 million hectares were FSC-certified [49]. More than a decade later, that figure is close to 42 million hectares, which constitutes 25% of all leased forests [50]. The FSC certification process took off in 2005-2006 – ten years after the first systems of timber traceability had been introduced in Russia. Foreign timber companies started entering the Russian market in the early 1990s, and from the very beginning, their forest management and supply-chain practices in leased forest areas have been closely watched by international and Russian environmental NGOs. During the past two decades the history of corporate forest management practices in Russia has shifted, from forest exploitation, to forest certification, and finally to constructive practices. For example, the Finnish company Tehdaspuu was one of the first to terminate its activities due to a logging company working in the disputed ‘green belt’ in Karelia. As a result of the market campaign, Finnish companies declared a moratorium on logging in intact forests of the Karelia Republic, Arkhangelsk Oblast and Komi Republic. Later those Finnish companies developed and implemented the cooperation and sustainable forest management in the 2000s. In the mid-1990s, some Finnish timber companies, such as Stora Enso and UPM-Kymmene, were heavily criticised for logging of the old-growth forests in the Republic of Karelia. That resulted in the market campaign driven by the Russian NGO coalition – the Forest Club, which focused on European business and individual consumers that used to purchase wood from those companies and eventually forced the business players to change their practices. For example, the Finnish company Tehdaspuu was one of the first to terminate its relations with a logging company working in the disputed ‘green belt’ in Karelia. As a result of the market campaign, Finnish companies declared a moratorium on logging in intact forests of the Karelia Republic, Arkhangelsk Oblast and Komi Republic. Later those Finnish companies developed and implemented the systems for tracking wood origin with mandatory verification (via an audit) in accordance with the ISO standards by an independent third party.

In 2005-2010, foreign timber companies that leased forest land in Karelia completely switched to the sustainability trajectory in relation to the old growth forests, as they opted for the FSC certification with compulsory preservation of high conservation value forests, especially intact forest landscapes. In addition, in 2007-2008 within the framework of FSC certification companies started wide consultations with local communities aimed at identifying social value forests and implemented social programmes that contributed to the infrastructure of the local forest settlements.

The development of the voluntary forest certification in Russia has been primarily
driven by environmental organisations (WWF-Russia, Greenpeace, the Socio-Ecological Union, Wildlife Conservation Centre). In 1998 they established the Russian initiative on voluntary forest certification, and the Forest Stewardship Council was chosen as the most appropriate standard for the Russian conditions. In 2000 the National Working Group emerged on the basis of the Russian initiative on voluntary forest certification, having the goal to develop the national standard of FSC certification for Russia. That National Working Group between 1999 and 2007 developed the Russian national FSC standard. The National FSC initiative was accredited by the international secretariat of the Forest Stewardship Council in 2006. The following reasons have been listed as the drivers of the rapid evolution of forest certification in Russia:

- Export orientation of the forestry industry (given that the traditional foreign markets for timber products have transformed into more environmentally-sensitive markets);
- Lobbying activities of international and Russian NGOs;
- Willingness of forest producers and traders to safeguard their business through the certification requirements;
- Presence of companies that have the means and scope for certification;
- Compliance of the Russian traditional forest management practice with international certification requirements;
- International consumers’ awareness about ‘bad’ forest management practices in Russia and abroad, and resulting pressure (49).

The combination of these factors has contributed to the rapid evolution of the forest certification in Russia. No other segment of the Russian economy can be compared with the forest industry in terms of the coverage scope of international certification standards.

Rationale for the private sector
Pressure from consumers in Western markets acted as the main driver behind Russian companies’ decision to apply forest certification in their supply chains, starting from the early 2000s. As Western businesses and individuals became more mature and informed about the negative aspects associated with illegal logging and trafficking of forest products, problems related to the preservation of rare animal and plant species during timber harvesting, deficient reforestation which causes damage to soil and water courses during logging, and companies’ failure to comply with social commitments in relation to local communities, timber consumers started taking steps to encourage Russian suppliers to adopt the voluntary forest certification. Western markets can be labeled as being ‘environmentally-sensitive,’ hence requiring products with compliance to green standards must be verified by the globally recognised certification logos. This driver for forest certification has become a determinant in the Russian market, as the Russian timber industry is currently export-oriented approximately 2/5 of all Russian forest output is exported, and only 1/5 is sold in the domestic market (49).

Another factor is timber market saturation, the predominant feature of which is the presence of many large timber companies in Russia that compete with each other. As a result, forest certification becomes an additional competitive advantage for them.

Sourcing from sustainable suppliers who can verify traceability with the corresponding forest certificates generates the following benefits for companies:

- Stability in supply chains and, as a result, stability in production processes;
- Transparent pricing;
- Risk minimisation whenever the products are exported to environmentally sensitive markets.

Business role. IKEA example
From the very beginning, multinational companies have been very active at promoting the forest certification agenda in Russia. Apart from providing sponsorship contributions, some representatives of multinational companies sit as members of the Economic Chamber on the FSC Coordination Council, for example, IKEA. In Russia timber exporters demonstrate a greater degree of commitment to FSC certification due to the stringent requirements imposed on them in the external markets. The state of the Russian domestic market is less advanced. In 2012, WWF in partnership with FSC Russia and a number of private sector companies, such as Tetra Pak and Avon, launched the second FSC campaign in Russia, which aimed at raising the level of FSC brand recognition among corporate consumers.

For IKEA, the world’s largest furniture retailer, promotion of the FSC certification presents a direct business case, as more than two-thirds† of the company’s products are made from wood-based materials, and the company is one of the largest consumers of timber in the world (about 1% of global consumption). Russia is an important market for IKEA, as around 7% of the wood used in the IKEA range is sourced here (51). IKEA has set a global goal of becoming “forest positive” and ensuring that 100% of the wood used by the company is sourced in compliance with its forestry requirements by 2020. However, in countries where the risks related to illegal timber are high, such as Russia, the goal of reaching 100% FSC-certified sourcing is set for September 1, 2016.

Currently, IKEA products are supplied by 253 local suppliers, including four company-owned factories. From September 1, 2016 all IKEA suppliers are required to use timber that is marked as 100% FSC or FSC Mix Credit. As of January 1, 2016, 55% of all products from Russian suppliers are delivered with relevant FSC claims. Because of that, the company promotes better forest management throughout its entire supply chain by encouraging suppliers to source raw wood materials from responsibly managed forests. IKEA assists suppliers and critical sub-suppliers by providing free FSC consultancy services. In addition, the company also supports the development of FSC voluntary certification in Russia, Ukraine and Belarus through its two flagship partnerships with the FSC and the WWF Forest Programme. For many years, IKEA has worked to increase the supply of wood from responsibly managed forests, and the company became one of the founding members of FSC Russia.

Some of the most significant achievements that IKEA has delivered in collaboration with its partners WWF and FSC include:

- Established high-level discussion on the legislative initiatives and participation of NGOs and responsible forestry companies in drafting of national forest policy;
- Established dialogue on the topic of illegal logging among government and representatives of the scientific and business communities;
- Advanced the responsible forest management concept in Russia;
- Increased application of the responsible forest management principles by the practitioners.

IKEA is currently in the second phase of a partnership with FSC Russia and in the fifth phase of a partnership with WWF Russia. During the second phase of partnership between IKEA and FSC, which commenced in 2014, organisational efforts are focused on the development of a new national standard and a new national risk assessment for controlled wood in Russia. Another objective involves improved management of intact forest landscapes within the boundaries of leased forest areas. The issue of intact forest landscapes management is also covered by the agenda of IKEA’s partnership with the WWF, which is currently in its fifth phase planned for 2014-2017. All these collaborative activities have been designed with the purpose of enhancing the availability of FSC-certified raw materials for IKEA suppliers.

* Source: Communication with IKEA-Russia
† Source: Communication with IKEA-Russia
‡ Source: Communication with IKEA-Russia
IKEA has developed and applied in practice its own internal ‘forest policy,’ which is based on two key documents: “The IKEA Position on Forestry” and “IWAY standard.” IKEA employees and home furnishing products suppliers are required to follow the legal statements stipulated in these documents in the area of procurement of wood-based raw materials. IWAY standard demands are similar to the requirements of the FSC-STD-00:05 standard.

NGO role

One of the essential components of the voluntary forest certification schemes, such as FSC, is transparency and openness to the public. The FSC certification also follows a tripartite structure: certification scheme-certification body-society.

In Russia there are many strong environmental organisations that have been at the forefront of the forest certification development since 1990s. Environmental organisations act in the capacity of stakeholders in the forest certification process. Environmental organisations interact with public authorities, business and general public raising awareness about sustainable forest management. NGOs organise conferences, roundtable events and meetings where joint recommendations are formalised in relation to the improvement of forest policy and legislation.

The Association of Environmentally Responsible Producers of Forest Products (GFTP Russia) was established in 1999 under the umbrella of WWF Russia. Initially the association brought together 15 companies. Today it connects approximately 25 companies, including the leading industrials, such as Ilim Group, Mondi Group and Arkhangelsk PPM. The strategic goal of the Association is to promote environmentally responsible, socially oriented and economically sustainable forest management that will maintain Russia’s natural heritage for future generations. Association members believe that corporate environmental policies and voluntary forest certification contribute to improving the companies’ image and enhancing their competitiveness, ensuring better access to investment resources, and also serving the interests of environmental protection, biodiversity conservation and forest reproduction. The Association actively promotes forest certification in Russia.

All the lobbying activities in the format of business-NGO collaboration have resulted in two landmark legislative developments, namely the Forest Code, which was enacted in 2007, and the National Forest Policy, which was adopted in 2013. Representatives of the Russian business community had continuously participated in the high-level working group discussions that led to the development of those new policies on responsible forest management.

PEPSICO BUSINESS CASE: EDUCATION FOR AGRICULTURE

Rationale

Being a socially responsible company, PepsiCo is committed to sustainable growth by investing in a healthy future for people and the planet. In its capacity as one of the largest processors of agricultural products in the country, PepsiCo has launched the Leaders of Agroindustry programme that delivers support to local raw milk and potatoes producers and supports Russian higher educational institutions that train specialists in the fields of agriculture, processing and engineering since 2008. PepsiCo was one of the companies that highlighted the critical state of the underqualified agricultural workforce in Russia. Based on a needs assessment, PepsiCo has tailored its sustainability agenda towards the operational reality instead of simply localising the global sustainability strategy.

PepsiCo’s initiatives directed at the students of Russian agricultural institutions are Russia-specific. The rationale for launching the structured programme of supporting tertiary education in the Russian agricultural sector was the following:

- Shortage of qualified and applied agricultural specialists that represented the potential workforce for the company itself and its business partners, including suppliers;
- Competitors’ poaching (‘headhunting’) certain suppliers after PepsiCo had invested in their development.

The main objectives of the programme are the following: triggering students’ interest in the subject of agricultural and technical occupations, equipping universities with a technical base, and motivating young university teachers.

Activities

Because the company intended to create a sizeable pool of qualified agricultural specialists that it could tap for recruitment, it decided to focus its efforts on working with students. Launched in 2008, the programme consists of three action domains: raising interest of potential students in agricultural degrees, providing additional incentives to attract young professors to lecture in national agricultural institutions, and developing the agricultural institutions’ infrastructure to improve the quality of teaching.

The main activities implemented as a part of PepsiCo’s agricultural programme are providing academic scholarships for students, equipping institutions with necessary equipment, supporting the organisation of thematic seminars and conferences, language courses for faculty members, supporting academic and scientific mobility, and organising summer schools. The programme runs in partnership with approximately ten educational institutions, such as Don State Technical University (DSTU), Kuban State Agrarian University (KubGAU), Russian State Agrarian University - Moscow Timiryazev Agricultural Academy, Omsk State Agrarian University, Novosibirsk State Agrarian University and others.

Starting from 2013, the company launched an international summer school for university students in partnership with Kuban State Agrarian University in Krasnodar. So far there have been three student intakes in the summer school. In addition to standard lectures delivered by Russian and foreign professors, practical workshops and study visits to local farms and industrial enterprises, school participants gain the opportunity to develop their own dairy product or design a project focused on improving the efficiency of an agricultural enterprise.

Benefits and results

By 2015 PepsiCo’s total investments into the programme exceeded $1 million. Between 2008 and 2015 the programme delivered the following results: 19 grants for equipment, 170 scholarships for students, grants for eight scientific conferences, seminars and language courses for students and faculty members, organisation of five scientific summer schools (each attended by 25-40 students), grants covering internship expenses of 75 people, including undergraduate and Ph.D. students, and university professors, and three awards granted for the best student projects. Because the programme is structured in a multi-year format, PepsiCo can gradually achieve its objectives, while simultaneously transforming the Russian business environment and the agricultural sector as a whole.
TOOL 3. CATEGORISATION OF IMPACTFUL BUSINESS CASES BY 3C IMPACT

All the identified six sustainability themes enable global businesses to make an impact. An overview of these themes makes it possible to define three major areas of corporate sustainability impact within a ‘3C’ framework that can be tracked by company management and communicated externally as an important part of sustainability efforts:

- ‘CONSUMERS’ - with related policies on products and sustainable marketing;
- ‘CHAINS’ - including improvement of internal production processes and industry standards setting, as well as localising supply chains and local nutrition producers;
- ‘COMMUNITIES’ - covering broader stakeholders engagement, high quality jobs creation.

All case studies presented as best practices have been successful at transforming the MNCs’ immediate operating environment and the local market in Russia.

As MNCs adopted the long-term approach to their local operations in Russia, they realised that the most successful transformational best practices required a generous timeline to allow for experimentation, testing and adjustments.

It has taken some of the companies more than a decade to transform the 3C beneficiaries through several channels: lobbying activities and collective pressure on policy makers via membership in partnerships and associations, community empowerment, education of consumers and suppliers and many others.

<table>
<thead>
<tr>
<th>Sustainability theme</th>
<th>Impactful business case</th>
<th>Impact on 3C</th>
<th>Value for business</th>
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</table>
| Sustainable products & marketing | Siemens Business Case High quality and energy-efficient trains made in Russia | Communities | • Partnership with a large-scale customer - RZD  
• Saving on production costs  
• Reduced customs duties resulting from localization of production  
• Minimizing FOREX risks |
| Sustainable sourcing | McDonald’s Business Case: Sourcing 45% of its products from 160 local suppliers | Chains | • Price stability for the company and its suppliers  
• Longer planning horizon which guarantees future demand  
• Control throughout the vertically-integrated supply chains  
• Minimizing FOREX risks  
• Enhanced company’s competitiveness |
| Product footprint | Business Case: RuPEF and the private sector’s role in consumer waste management | Chains | • Cost savings  
• Compliance with new regulation on extended producer responsibility |
| Climate change & energy efficiency | Lafarge Business Case: Alternative fuels to energy shop at the Fertizko plant | Chains | • Material savings: improved production efficiency and savings on energy costs  
• Reputational benefits |
| Operational efficiency | PepsiCo Business Case: LEED-certified building of the Asya sports plant | Chains | • Reduction in electricity and water consumption and waste generation  
• Positioning of the country office as a sustainability leader |
| Operational efficiency | Unilever Business Case: Zero non-hazardous waste to landfill | Chains | • A peripheral income source  
• Cost savings  
• Positioning of the country office as a sustainability leader |
| Partnerships & associations | Business Case: Responsible forestry and the private sector’s role in the evolution of the Forest Stewardship Council certification in Russia | Chains | • Stability in supply chains  
• Stability in production processes  
• Transparent pricing  
• Risk minimization wherever the products are exposed to environmentally sensitive markets |
| Partnerships & associations | PepsiCo Business Case: Education for agriculture | Communities | • Investing in potential workforce, so that the company is able to recruit qualified and applied agricultural professionals  
• Enhancing the professional expertise throughout its supply chains, as suppliers are able to recruit qualified labour force |

Source: SKOLKOVO IEMS
CHAPTER 3. CHALLENGES AHEAD

Whereas country specifics structured within the four dimensions (social, economic, environmental and governance) define the operational context in terms of strengths and weaknesses of the local market from the perspective of scope for corporate sustainability strategies and sustainable business actions, and the corporate best practices offer insights into the ‘what’ subject matter, Chapter 3 focuses on the local business environment and answers the ‘how’ question, presenting the Russian playing field for sustainability strategists.

The analysis of global and national sustainability agendas implemented by 30 sampled MNCs has generated the localisation rate of approximately 50%, and there could be two reasons underlying such result. First, each market is featured by certain factor endowment and sources of distress, hence requiring the country offices to prioritise certain sustainability objectives and customise the global sustainability strategy accordingly. Second, not all the practices which have a successful record of execution in other countries can be implemented as easily in Russia. The experience of sampled MNCs has suggested the presence of certain barriers that impede the implementation of certain impactful business cases in Russia. That has led to the development of the 3i framework, which assumes that certain weaknesses that are inherent in the Russian external business environment can be classified into INFRASTRUCTURAL, INSTITUTIONAL AND INFORMATIONAL BARRIERS.

The first group of barriers – INFRASTRUCTURAL one denotes significant business implications, as the lack of sufficient infrastructure, either in the form of human capital or accessible technologies, creates additional costs for businesses. It means that businesses have to invest in the development of ‘soft’ infrastructure or import technologies from abroad instead of sourcing for them locally. The second group of barriers identified as INSTITUTIONAL, refers to either institutions that are absent in Russia or issues concerning institutional governance. Notably, Russia scores the most poorly in the governance dimension of the IEMS Sustainability Composite Index. The third group of barriers, named INFORMATIONAL, is related to either informational asymmetry about sustainability or insufficient awareness on the part of certain stakeholders.

Overall the research has identified ten main barriers that MNCs encounter during the implementation of sustainability initiatives in Russia. Some of the corporate best practices illustrate successful solutions designed in order to address these barriers, as the Russian context defined the pressing needs for solutions. Other business cases have been examples that were realised irrespective of these external barriers.

Skolkovo IEMS considers these ten barriers to be the most pertinent and pressing for the evolution of corporate internal sustainability in Russia at the moment; however it should be noted that the Russian business environment is very dynamic and is currently in a transitional stage. As a result, the situation might evolve quickly.
Context

MNCs regard the existing lack of suppliers that are willing to transform their practices into more sustainable ones as one of the most pertinent barriers in Russia. As MNCs declare public commitments to incorporate sustainability into their supply chains, their main challenge involves finding the suppliers that meet the internal standards on environmental, social, ethical and safety issues. Ideally, the supplied raw materials or products should be certified by an internationally recognised certification body that verifies their traceability.

Implications

With regards to sustainable procurement, the situation can be described along the lines of three scenarios:

- **absence of suppliers of a given product or service** which makes companies import components or services, increases costs and risks within the supply chain as well as contributes to product footprint due to extended logistics;
- **availability of ‘traditional’ suppliers**, but lack of sustainable suppliers of a given product or service, which basically means that companies have to work with the most advanced among ‘traditional’ suppliers on a case by case basis and nurture sustainability patterns. It takes years and pays back in a long run;
- **scarcity of sustainable suppliers**, although a few are present. This is the most ‘ideal’ scenario among all, but it also means that companies might face monopolistic price policy.

One example of FMCG companies for which local sourcing is one of the most important issues involves Russia’s farmers. According to some industry experts, almost half of all Russian agricultural producers are subsistence farmers who are not included in FMCG or retail supply chains. At the same time, global corporations are often not able to find any suppliers of certain commodities in Russia, and finding sustainable suppliers is even a more challenging task. A lack of necessary food processing equipment which would enable the farmers to slice, dry and process the fruits and vegetables in line with the company’s technical standards is another supplementary barrier which contributes to the problem of absent suppliers of a given product in the Russian agricultural market.

As MNCs emphasise the importance of sourcing from sustainable certified sources, their strategy will evolve. In the absence of certified suppliers, these companies will opt for importing commodities rather than sourcing them from local unsustainable suppliers. Although this strategy enables companies to meet their commitments with regard to sourcing from 100% certified sources, the import of commodities generates certain negative externalities, such as low impact on the local economy and high carbon footprint resulting from the longer supply chain. Longer supply chain presumes higher transportation costs, which increase the cost of goods sold and, as a result, the final price. A lack of sustainable suppliers requires MNCs to raise their own suppliers’ network up to corporate standards by educating and investing in them manually.

Nevertheless, a lack of sustainable suppliers definitely impedes the evolution of corporate sustainability in Russia. In Western markets, companies are able to tap the market of plentiful sustainable suppliers very easily, and they even have a choice during the tender process, as suppliers compete among each other for ‘master’ contracts. In contrast, in Russia the landscape of such suppliers is sparsely populated. This denotes that global companies have to spend time identifying suppliers that are capable and willing to transform their operations and then assist them with their ‘greening’ transition, and that can be very costly.

On-going trends

Out of all business processes sourcing is the functional area which is localised by the sampled companies at the greatest extent. In Russia all sampled companies representing the food & beverage, as well as furniture, pulp & paper industrial segments have national sustainability priorities in the sourcing area, and the localisation rate reaches 100% for them. MNCs’ work in addressing this particular barrier has been probably more successful in comparison to other nine barriers, as global companies have succeeded to enhance sustainability standards and educate Russian suppliers during the past two decades. These companies have created a new type of demand, and certain suppliers compliant with the sustainability requirements either have emerged or transformed their practices in response, thus transforming the local market and industry.

SKOLKOVO IEMS outlined companies’ efforts with regard to nurturing long-term ‘master’ partners and investing in local suppliers, channeling their initial expenditures into working capital and modernisation, e.g. advance financing of seed purchases against future harvests. Russian practice also allows for a multinational company to act as a guarantor in transactions executed by its suppliers. The research has found out that multinational companies are willing to invest in suppliers, whenever there is an underlying business model for such investment, i.e. large scope and large quantity demanded of sourced commodities. Still for some companies it may take up to 6-8 years to build up the suppliers’ critical mass before the production site can be built in Russia.
In Russia, ‘green’ technologies are still not widely used in the construction industry; however, they are more likely to be found in the commercial real estate segment than in the residential one. With regard to the ‘green buildings’ certification, there were 45 BREEAM (BRE Environmental Assessment Method) and LEED (Leadership in Energy and Environmental Design) certified projects in Russia, with around 58% of those sites representing the office segment and industrial premises accounting for approximately 25%, as of Q3 2014 (53).

Context

In Russia, ‘green’ technologies are still not widely used in the construction industry; however, they are more likely to be found in the commercial real estate segment than in the residential one. With regard to the ‘green buildings’ certification, there were 45 BREEAM (BRE Environmental Assessment Method) and LEED (Leadership in Energy and Environmental Design) certified projects in Russia, with around 58% of those sites representing the office segment and industrial premises accounting for approximately 25%, as of Q3 2014 (53).

Implications

In general, office spaces built in accordance with ‘green office’ standards make extensive use of modern engineering solutions that save water and energy, allow the best use of natural lighting, ensure comfortable air quality and temperature, include facilities for separate storage and disposal of various waste types, offer comfortable working conditions (e.g. via human-centric lighting (54)) and access to transportation (e.g. bicycle parking facilities).

Industry experts have identified four drivers contributing to the recent rapid acceleration in ‘green’ certification in Russia (53):

- Environmental regulation. Some new amendments to the Tax Code outline the possibility of lowering the tax burden for businesses which use energy-efficient appliances.
- Growing demand from tenants. In the Moscow commercial property market offices with LEED and BREEAM certificates have proven to be the most popular among international companies.
- Brand recognition. ‘Green’ building certification gives developers and landlords a ‘selling point’ in comparison to buildings that are not certified, and sophisticated tenants recognise the value of such certificate.

In Moscow more and more office buildings are constructed not only in line with ‘green’ guidelines. In addition, they are actually certified in compliance with either BREEAM or LEED standards. Several Russian standards are also applied in the construction industry, including GOST R 54964-2012 ‘Compliance Assessment. Environment Requirements For Real Estate Sites,’ which was approved in 2012, and is currently recognised as the national standard for green buildings. Another national standard which is compliant with ISO international standards is STO NOSTROY 2.55-2011 ‘Green Building. Residential and Public Buildings. Rating System Assessing the Sustainability of the Environment.’

Although the concept of ‘green’ building certification is still considered to be in its nascent phase, the evolution of this type of certification encounters the following challenges in Russia:

- Lack of knowledge base and small number of market professionals. Industry experts report the problem of an acute shortage of practitioners of all levels (from public employees to engineers) who have sufficient expertise and working knowledge of the Green Development concept and certification process.
- Controversial role of the government. Russian state construction standards (i.e. GOST) are regarded insufficient in terms of full coverage of all ecological requirements and aspects of energy efficiency. For example, ‘green’ GOSTs are still not mandatory for obtaining an operational permit.
- Capital expenditures vs. cost savings still questionable for Russia. Building developers still do not have the business case to invest in green development, as it is associated with higher initial capital expenditure linked to specific technologies, materials and procedures. Developers are also discouraged by the longer payback periods, as ‘green’ construction projects offer the average payback period of 8-15 years in Russia.

For MNCs, inaccessibility or expensiveness of ‘green offices’ becomes a barrier whenever the global headquarters sets the transfer to green offices and construction of green production sites as its global sustainability priority, as the Russian country office is not able to localise that global requirement due to the absent infrastructure. For such companies, as Siemens, Decathlon, Shell and Deutsche Bank compliance with the environmental standards became more important due to the value of such certificate.
the determining factor for selecting office premises [53]. Whenever that happens, the property owner has to adapt the office space toward the tenant’s requirements and make significant investments into the building’s ‘greening.’ Very often, the company gains financial benefits, as more efficient solutions tend to lead to cost savings on utility bills and increased staff productivity.

**On-going trends**

The ‘green building’ is probably the most advanced segment within the sustainability playing field. The sustainable building development has been experiencing a strong uptrend. While in 2010 there were two LEED and BREEAM-certified projects in Russia, in the summer-summer 2014 the number of certified projects reached 43 [55].

In Russia the international NGO Greenpeace has been implementing the “Green Office” project since 2008, raising public and business awareness about the benefits of ‘greening’ office space and providing advisory services to interested parties.

Irrespective of some positive developments, the companies report that present Russian legislative and regulatory environment in the area of green construction is focused on penalties rather than on incentives, and is so unfavourable for developing the area of green buildings: for certification of the existing facilities and for new green building infrastructure development. In many cases, under current legislation, it can be more cost-effective for a company to build a cheap and environmentally unfriendly production facility and pay penalties, rather than to invest in costly environmentally-safe construction, and that it is mainly because of the current water-related legislation and regulations. Leading MNCs do not normally enter into such practices because they value their reputation and because of the pressure from the headquarters, not because of the profit and loss (P&L) analysis.

**TRANSPORT INFRASTRUCTURE**

**Context**

Many of the world’s leading civil aviation companies offer the service of carbon-neutral travel to passengers. For example, Air Canada launched the Travel Carbon Neutral programme in 2007, which offsets produced CO2 emissions released during the passengers’ travel by implementing forest restoration, landfill gas recovery and organic waste composting projects.

**Implications**

As MNCs attempt to minimise their carbon footprint by reducing business travel and opting for conference calling and videoconferencing options, the need for services offering the calculation of carbon emissions increases. Global companies have to monitor their carbon footprint in order to be able to report and offset it.

In order for the Russian offices of MNCs to be able to meet their commitments with regard to minimising carbon footprint related to business travel, there is a need for carbon footprint calculators to be available for all modes of transportation, including small airlines and rail.

In the absence of valid technological solutions for monitoring its carbon footprint, a company experiences difficulties declaring public commitments with regard to implementing full-scale corporate policy on climate change. Quite simply, the company is not able to set realistic targets and KPIs.

**On-going trends**

In December 2015, leading Russian airline Aeroflot launched an Online CO2 Emissions Calculator, which enables passengers to assess the environmental footprint of their flight route based on the relevant statistics and data, as a part of the company’s environmental protection policy. In the future, passengers will be offered the option to make a voluntary donation towards environmental conservation in Russia as an offset measure.

**ALTERNATIVE ENERGY**

**Context**

Thanks to the abundance of coal, oil and natural gas resources, Russia has traditionally been one of the major energy exporters in the world. Such competitive advantage also creates a challenging environment for the development of alternative energy sources.

Nevertheless, because of its size and wide range of geographic features, Russia has enormous potential for developing renewable energy sources. In many sparsely populated and remote areas, people are not connected to the electricity grid, thus showing the existence of enormous potential demand for off-grid electricity systems, based on renewable energy. This view is also shared by some experts who do not recommend potential renewable energy generators to compete with the centralised energy network, but instead, point out the opportunities arising from the missing electricity grid in a large part of the country’s territory. Researchers from Lappeenranta University of Technology (Finland) have modelled a renewable energy system for Russia and Central Asia, and their results showed that renewable energy can make Russia a very energy-competitive region in the future [55]. According to the research, a 100% renewable energy system would cost approximately 50% less than a system based on the latest European nuclear technology or carbon capture and storage technology.

**Implications**

While it is most likely that MNCs would also oppose gaining access to alternative energy solutions if it meant higher electricity bills, the nonexistence of supply of renewable energy products and services does not allow global companies to transfer some of their best practices and comply with global commitments on climate change. For example, Novo Nordisk’s production site in Konyama, Japan is now supplied with renewable energy from biomass and wind, while at a number of breweries located in Brazil and Vietnam, Heineken has switched to the power of biomass fuels, decreasing reliance on fossil fuels, in order to reduce CO2 emissions in production. In Russia all these solutions seem to be infeasible at the moment.

**On-going trends**

In 2013 the Russian government introduced a state support programme aimed at ‘greening’ the power industry, which the market players actively opposed. Both producers and consumers presented a united front against the new initiative, as the shift to renewable energy could raise power costs, a burden that would have to be borne either by power generating companies or passed on to final electricity users. The opponents estimated that the total ‘price tag’ attached to the support of the renewable energy could reach 85 billion rubles by 2020 [56], and that would lead to a critical increase in electricity prices for consumers and impaired competitiveness of Russian exporters in the global markets.
to graduate specialists with expertise across the Environmental Management Department of Applied Economics and Commerce. At Management and Ecology" in the School Complex Problems of Environmental Russia, for example, Moscow State Institute of environmental education has a long history in Still it should be noted that the traditional has not included the sustainability modules. Up until recently Russian business education and professional skills in response to new cases pioneers who have built their expertise at the manufacturing sites. CSR as a professional occupation which requires specialised qualification is still at the stage of formation. Russian CSR officers shaping current sustainability landscape have been in many cases pioneers who have built their expertise and professional skills in response to new corporate challenges. Still it should be noted that the traditional environmental education has a long history in Russia, for example, Moscow State Institute of International Relations (MGIMO University) offers a programme called “International Complex Problems of Environmental Management and Ecology” in the School of Applied Economics and Commerce. At Lomonosov Moscow State University there is the Environmental Management Department within the structure of the Faculty of Geography. However, these programmes are not customised to graduate specialists with expertise across all four dimensions of sustainability, namely economic, social, environmental and governance as well as lack business perspective. By way of contrast, in other BRICS countries academic programmes are better adapted to graduate specialists who are fully equipped to perform sustainability-related functions within the organisation without additional training. For example there is the MSc Sustainable Energy Technology programme, which is a joint effort between Xi’an Jiaotong and Liverpool University in China or the MBA in CSR offered by the Institute of Corporate Sustainability Management in India. At the same time sustainability-related subjects are not included in the curricula of traditional Russian academic institutions. For example, currently traditional ‘forestry’ institutions have a limited offer of practical courses in such subjects as forest certification, which would be of great practical use for future employers, i.e. pulp and paper companies. There is also a shortage of qualified agricultural specialists in Russia, for example, lawyers with specialisation in land relations or food technologists. Sampled companies have highlighted the problem of a shortage of graduates from Russia’s leading institutions, who are adequately equipped in order to install sustainability-related procedures at production sites. This problem does not only affect the quality of candidates that the companies are able to recruit, but also staffing in partner companies, including suppliers. Partially because of this issue of an underqualified labour force, it is challenging to find suppliers that meet the corporate standards for quality, health and safety, and sustainability. Companies attempt to address the barrier of insufficient labour supply in a number of ways, however, the return from their investment in talent development is much lower than it could have been under the best-case scenario. The targeted investment in employees’ development often does not generate expected social returns, as the companies start competing for experts in the sustainability field and often attempt to recruit them from other organizations. Because of that, partnerships with universities enable global companies to cast the net much wider, as the company can tap a larger pool of trained graduates who have completed relevant industrial placements at the production sites and are familiar with the corporate requirements. In the long run, these investments in educating the new generation of sustainability experts are expected to address the barrier and transform the Russian landscape.

On-going trends

Quite recently leading Russian universities and business schools have started offering sustainability-related academic courses designed to prepare sustainability officers and corporate social responsibility managers in Russia. For example, MGIMO University launched a dual degree program with St. Andrews University (UK) which awards a Master’s degree in Sustainable Development (programme “Sustainable Development and Strategic Management in Energy’). Furthermore, the Moscow School of Management SKOLKOVO has launched a three-day intensive course for senior executives, strategists and sustainability officers, providing them with knowledge and practical tools for building sustainable business models in Russia.

As for the lack of technical expertise in sustainability, MNCs started implementing solutions that focus on forming partnerships between agricultural and forestry educational institutions and business schools, and establishing educational programmes that equip students with applied knowledge on the sustainability topic. For example, WWF in partnership with IKEA published the university textbook “Sustainable Forest Management Basics” in 2014.

Implications

Basically companies experience:

- a lack of staff with sustainability-related expertise and sustainability-oriented mindset, in general, which denotes a management challenge, whenever local offices have to go through the implementation of sustainability practices, especially in the Russian regions;
- a lack of industry-specific technical expertise in sustainability - e.g. precision farming. The problem of inadequately-trained labour force is especially critical for industries that are based on sourcing natural resources, such as agriculture or forestry where sustainability implies predominantly aspects related to operational efficiency.

Hence, the problem of an inadequately-equipped labour force materialises at three levels: limited mindset of mid-level management, untrained sustainability and CSR officers, and limited expertise of manual workers and staff working at the manufacturing sites.

CSR as a professional occupation which requires specialised qualification is still at the stage of formation. RussianCSR officers shaping current sustainability landscape have been in many cases pioneers who have built their expertise and professional skills in response to new corporate challenges.

Context

While Russian credit and capital markets remain comparatively underdeveloped and difficult to access for green funding, environmental finance has evolved drastically in many emerging economies in recent years. In February 2015 India became a pioneer in Asia’s nascent green bond market, as the country’s fourth-largest private sector bank - Yes Bank - issued India’s first green bond, with proceeds to be used by the issuer to finance green infrastructure projects implemented by its borrowers in renewable energy.

In Brazil, the food company BRF issued the country’s first green bond in June 2015 in order to refinance or fund new projects focused on energy efficiency, renewable energy, sustainable forests, water management, packaging, raw material use reduction and waste management. The demand for such financial instruments as green bonds is driven by the needs of ethical investors, who focus on investing in projects with higher sustainable benefits. In China a few green bond sales also tested the market in 2015, as Xinjiang Goldwind Science & Technology Co. and Agricultural Bank of China Ltd. issued green bonds. Chinese companies have intentions to
continue tapping the green bond market, as several commitments to “boost the $100 billion green bond market for renewables” have been declared publicly (57).

Implications

Limited access to green finance in Russia is considered to be an immediate barrier for Russian companies, as state-owned and private sector financial institutions fail to offer attractive financing terms for industrial modernisation projects. This is especially true in light of the current economic sanctions, as banks themselves have limited access to medium- and long-term funding. Almost 65% of all Russian companies cite their lack of available financial resources to be the main barrier for modernising obsolete infrastructure and implementing various energy efficiency projects (19). The average payback period of such energy efficiency projects is two to six years, hence this should match the maturity of the loans offered by Russian commercial banks.

As some of the previously available green finance mechanisms are currently inaccessible for the majority of Russian private sector companies, there is demand for new innovative products. These new solutions would deliver financing for clean energy and other low-carbon projects that can help countries adapt to and mitigate climate change, while giving lenders and investors high-quality credit and fixed-income investment opportunities.

While the coverage of green finance instruments can be extended to addressing a plethora of environmental needs, including environmental conservation of biodiversity, in Russia, most practitioners limit the scope of the term ‘green finance’ strictly to those mechanisms that are structured to finance low carbon and resource-efficient projects. In terms of the climate finance evolution, multilateral development institutions have played a major role as the source of dedicated funding for energy efficiency investments in Russia. Both the European Bank for Reconstruction and Development (EBRD) and the International Finance Corporation (IFC) have established sustainable energy finance programmes in Russia, which have been brought to a halt, starting from mid-2014, as the institutions stopped undertaking any new business, continuing to support only existing projects and clients in Russia.

IFC established the Russia Sustainable Energy Finance Programme in 2005, and to date, over $242 million in credit lines have been extended through 13 partner financial institutions (59). As of the mid-2012, more than 270 energy efficiency projects in the SME sector have been financed via this IFC scheme, and those projects were expected to result in electricity savings of 1.805 GWh per year (59). The EBRD’s Sustainable Energy Initiative (SEI) was designed to finance sustainable energy projects by combining investments with technical assistance and policy dialogue with stakeholders. Within the SEI framework, the EBRD has invested EUR 24.4 billion in 102 Russia-based projects across such sectors as manufacturing and services, municipal infrastructure energy efficiency and power and energy, as of Q1 2013 (60). The institution has also launched the Russian Sustainable Energy Financing Facility (RSEF) to channeling up to $500 million as long-term credit lines to commercial banks for further lending (61).

Some of the regional financial entities that also have the status of development institutions declare energy efficiency as one of the priorities in their mandates, including the Eurasian Development Bank and the state-owned bank Vnesheconombank (State Corporation “Bank for Development and Foreign Economic Affairs”). It is still too early to speculate whether the newly established New Development Bank of the BRICS (NDB BRICS) could be considered an alternative funding source easily accessible by private sector borrowers, in particular, subsidiaries of multinational corporations in Russia. As of April 2016, the NDB BRICS bank approved the first group of loans worth $811 million investment in renewable energy projects for bidders from Brazil ($300 million), China ($81 million), South Africa ($180 million) and India ($250 million). Currently, there are no Russian projects in the pipeline at that stage (62).

Another green finance mechanism that became available to Russian industrial and corporate actors for a short period of time was one of the Kyoto Protocol mechanisms known as Joint Implementation (JI). While the Kyoto Protocol entered into force in February 2005, the Russian Federation, although having ratified the Protocol, did not launch any large-scale JI approvals until 2010. Because of such sluggishness in the creation of a comprehensive system for official JI approval, the Russian Federation has failed to capitalise on the full potential offered by the JI mechanism.

In general, JI was based on a sound business model. JI allowed an industrialised country with a surplus carbon position to sell emission reduction units (ERUs) to carbon markets. Hence, within the framework of the JI scheme, the Russian Federation could have sold those offsets to other governments trying to meet their Kyoto targets or to firms participating in the European Union Emissions Trading Scheme to a much greater extent than it actually did.

Between 2010 and 2012 JI project approval was accomplished through a tendering process led by the operator of carbon units – Sberbank, which solicited bids from clean energy project developers for 50 million Kyoto Protocol carbon credits. During that time period ERUs were issued for 86 projects, with the total number of issued ERUs amounting to 2634 million units. Of that amount, 2375.5 million ERUs from 74 projects were transferred to purchasers (63). The overwhelming preference was given to Associated Petroleum Gas (APG) utilisation projects (over 40% of the ERUs sold) and projects involving capture and destruction of the most hazardous greenhouse gases – HFC23 and SF6 (23% of sold ERUs). Energy efficiency, energy saving, renewable energy and biofuel projects together accounted for less than 13% of sold ERUs. Over 70% of sold ERUs, including 100% of sold ERUs from major projects, were purchased by just one foreign buyer – Vitol S.A., a Swiss-based crude oil and other hydrocarbon trader. Revenues from the sales of ERUs had to be reinvested into energy efficiency and/or environmental projects.

Russia’s participation in the JI scheme ceased prior to the Kyoto Protocol’s second commitment period of 2013-2020, as the country was no longer able to carry over the surplus carbon units from the first to the second commitment period as a part of the Doha agreement. The country’s decision, which was joined by New Zealand, Japan and Canada, was partially determined by the situation in the carbon market, which featured a surplus in carbon credits and a fall in the price of carbon credits below 1 euro.

On-going trends

It has become evident that, in the current market conditions of the credit squeeze, public sector actors, including state-owned banks, might have to step in and inject the deficient funding in order to stimulate green economic growth in Russia. The Tatarstan Cleantech Fund (TCF), which represents a joint initiative between the Republic of Tatarstan and Wermuth Asset Management, is one of the first milestones along that “green” trajectory. Set up in early 2012, the 200-million euro fund targets companies that produce waste to energy technology, biodiesel fuel and emission reductions, conditional on their operational presence in Russia, in particular, in Tatarstan.

LIMITED APPLICATION OF FISCAL INSTRUMENTS AS SUSTAINABILITY INCENTIVES

In order to achieve its environmental goals, a country normally applies economic instruments – including fiscal policy – in order to tackle the problems of climate change and environmental protection. Different fiscal tools can be complementary to each other and instrumental for achieving environmental targets. In Russia, coercive regulatory tools, such as environmental standards, quotas, fines and product bans, traditionally prevail over fiscal instruments, and especially over incentives, such as subsidies. Within the scope of the research, only two types of fiscal instruments are discussed: taxes and subsidies*.
ENVIRONMENTAL TAX SYSTEM

Context

KPMG Green Tax Index report (2013), which analysed the application scope of fiscal instruments in 21 countries, including Russia, shows underutilisation of the environmental tax system in Russia [64]. The report illustrated the growth of tax as a green policy tool that is increasingly used by governments in response to lower carbon emissions; reduce, reuse and recycle waste; encourage efficient use of water, energy and material resources; and promote green innovation.

A high ranking in the Index implies that the respective government is more active than others in using its tax system to drive sustainable business and achieve green policy objectives. The Index covered numerous tax penalties and incentives, including carbon tax, tax credits with green-specific, tax penalties with direct green application, carbon cap-and-trade system, etc.

TABLE 12. APPLICATION OF TAX INCENTIVES AND TAX PENALTIES: COUNTRY RANKINGS

<table>
<thead>
<tr>
<th>OVERALL RANKING</th>
<th>TAX INCENTIVES ONLY</th>
<th>TAX PENALTIES ONLY</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>6</td>
<td>China, 3, China, 5</td>
</tr>
<tr>
<td>India</td>
<td>1</td>
<td>India, 4, South Africa, 9</td>
</tr>
<tr>
<td>South Africa</td>
<td>13</td>
<td>Brazil, 12, RUSSIA, 17</td>
</tr>
<tr>
<td>Brazil</td>
<td>18</td>
<td>South Africa, 12, India, 17</td>
</tr>
<tr>
<td>RUSSIA</td>
<td>21</td>
<td>RUSSIA, 20, Brazil, 19</td>
</tr>
</tbody>
</table>

Source: KPMG (2013) [64]

According to the KPMG methodology, Russia is positioned at the bottom of the ranking, in the same quartile as Brazil, Argentina and Mexico as the least active countries in using tax as a green policy tool. Also the country rating suggests that Russia utilises fiscal penalties at a much greater extent than tax incentives, and on a cumulative basis, Russia has the lowest ranking out of 21 sampled countries in the overall rating.

Implications

The 2015 KPMG Green Tax Index report outlined the application of the following green tax incentives and penalties in Russia:

- Purchase of energy efficient equipment (energy efficiency incentives);
- Taxes/penalties on water use (national pollution control & ecosystem protection);
- Grants/loans (non-tax incentives).

Russia is positioned comparatively better in two policy categories: energy efficiency and water efficiency, where the country utilises fiscal instruments in a more comprehensive manner for achieving green economic objectives. It should also be noted that out of the 21 countries analysed for this index, all except two (Argentina and Russia) have some sort of tax incentive and/or penalty related to green vehicles.

On-going trends

Russian taxpayers are currently entitled to a 5-year exemption on corporate property tax for newly introduced energy efficient assets such as air conditioners and elevators [64]. The Russian government also provides a capital allowance for approved energy efficient fixed assets for corporate tax purposes. The capital allowance amount can be doubled for certain assets. Investments in energy efficient equipment also qualify for accelerated depreciation at twice the standard rate for tax purposes.

Tax relief incentives for the most efficient technologies, such as industrial boilers, can help to increase the financial viability of these investments for market participants and foster the replacement of old equipment with the best available options.

TABLE 13: APPLICATION OF FISCAL INSTRUMENTS IN ENERGY AND WATER EFFICIENCY

<table>
<thead>
<tr>
<th>ENERGY EFFICIENCY</th>
<th>WATER EFFICIENCY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Netherlands</td>
<td>1 South Korea, 1</td>
</tr>
<tr>
<td>Germany</td>
<td>2 China, 2</td>
</tr>
<tr>
<td>Singapore</td>
<td>2 UK, 3</td>
</tr>
<tr>
<td>China, RUSSIA, South Africa, V.S.</td>
<td>4 RUSSIA, 5</td>
</tr>
<tr>
<td>China</td>
<td>6</td>
</tr>
<tr>
<td>India</td>
<td>1</td>
</tr>
<tr>
<td>South Africa</td>
<td>13</td>
</tr>
<tr>
<td>Brazil</td>
<td>18</td>
</tr>
<tr>
<td>RUSSIA</td>
<td>21</td>
</tr>
<tr>
<td>China</td>
<td>3</td>
</tr>
<tr>
<td>India</td>
<td>4</td>
</tr>
<tr>
<td>South Africa</td>
<td>12</td>
</tr>
<tr>
<td>Brazil</td>
<td>12</td>
</tr>
<tr>
<td>India</td>
<td>17</td>
</tr>
<tr>
<td>RUSSIA</td>
<td>17</td>
</tr>
<tr>
<td>China</td>
<td>3</td>
</tr>
<tr>
<td>India</td>
<td>4</td>
</tr>
<tr>
<td>South Africa</td>
<td>12</td>
</tr>
<tr>
<td>Russia</td>
<td>20</td>
</tr>
<tr>
<td>Brazil</td>
<td>19</td>
</tr>
</tbody>
</table>
| Source: KPMG (2013) [64]

PERVERSE SUBSIDIES AND RENEWABLE ENERGY SUBSIDIES

Context

Policy makers commonly use subsidies to promote technologies and shift the balance of incentives towards more environmentally sound products and practices. Greening growth also means eliminating the subsidies for environmentally harmful resource use, so-called perverse subsidies. A prominent example of perverse subsidies is support for fossil-fuel production and consumption, which contribute to the growth of greenhouse gas emissions.

According to the IEA Fossil Fuel Subsidy Database, Russia’s fossil-fuel subsidies totalled $47 billion in 2013, thereby laying the foundation for the country’s position as the world’s third-largest subsidiser of fossil fuels together with India ($47 billion), trailing only Iran ($84 billion) and Saudi Arabia ($62 billion) [65].
At the 2009 summit in Pittsburgh, G-20 members, including Russia, committed themselves to “rationalise and phase-out over the medium term inefficient fossil fuel subsidies that encourage wasteful consumption.” [66]

According to Russia’s implementation strategy to rationalise and phase-out inefficient fossil-fuel subsidies that encourage wasteful consumption, the G-20 Pittsburgh Summit commitment “will be implemented in Russia within the framework of its Energy Strategy of Russia For the Period to 2030 and the Concept of Long-Term Social and Economic Development till 2020 [67]. Given the magnitude of existing fossil-fuel subsidies in Russia, their reform would definitely be an important contribution to the international process of internalisation of environmental externalities and decarbonisation of the world economy.

The WWF-IISD study analysed the degree of state support extended to the Russian oil and gas sector. In doing so, it identified 17 schemes that can be classified as perverse subsidies to Russian oil and gas producers, and those totalled $8.1 billion in 2009 and $14.4 billion in 2010 [67]. Some of the applied perverse subsidy measures were the relief from the mineral extraction tax and export duties, both of which accounted for the majority of the identified subsidies. Other types of Russian government support to oil and gas producers were the reduced tariff for oil transportation, deduction of research and exploration costs from taxable profits, accelerated depreciation allowance and federal budget spending on oil and gas exploration.

Implications

The current structure of energy-related subsidies does not offer many fiscal stimuli to support the shift of the global and Russian companies away from the reliance on the traditional energy sources. Coupled with the barrier of limited access to green finance, a lack of government subsidies becomes a significant constraint, hindering the implementation of renewable energy projects in Russia.

On-going trends

As the usage of fiscal incentives has traditionally been skewed towards the provision of perverse subsidies due to the abundance of fossil fuels in Russia, there has been very limited usage of subsidies in the renewable energy segment until recently. On May 28, 2015 the government of the Russian Federation adopted Decree No.449 on “The Mechanism for the Promotion of Renewable Energy on the Wholesale Electricity and Capacity Market.” That legislative document became the most significant milestone towards the creation of a regulatory framework designed to promote clean energy production in Russia. Decree No. 449 tasks the Administrator of the Trading System (a subsidiary of the NP Market Council) with organising a competitive selection of renewable energy investment projects each year and for each type of renewable energy covered by the scheme (i.e. wind, solar PV and small hydropower)*. Project developers who sign Agreements for Capacity Supply commit to constructing and commissioning the installations concerned within a certain period of time, and in return they are guaranteed a return of the capital investment expenditures into these projects by the state, conditional on the high degree of localisation of procured equipment.

In 2013 and 2014 Administrator of the Trading System completed two tenders which aimed at disbursing state subsidies for the period of 2014-2018, with solar energy projects winning most of the bids, as those projects represented 904 MW of the 2020 target solar capacity of 1520 MW [56]. The tenders also attracted foreign investors. For example, the subsidiary Solar Systems of China’s Amur Sirius became one of the selected project developers, as the company indicated investment plans to start building a solar panel plant with the capacity of 175 MW in Russia in 2015. Although wind energy was allocated the largest proportion of the capacity that was subject to state support (i.e. 5.6 GW out of the total capacity of 6 GW), very few project developers have submitted their bids, and winning bids totalled only 156 MW of capacity. In 2014 out of 57 applicants, 55 bidders sought solar generation, three participants bid for hydropower and a single bidder sought wind capacity [68].

Context

In many countries, companies are able to gain tax relief on their donations. Such donations are usually deductible from the total profits when calculating the corporate tax. In Russia, the Tax Code does not contain any special tax exemptions for commercial organisations engaged in charity work. The donation made by a legal entity does not reduce the tax base for calculating the income tax [69].

Implications

In Russia, because of the existing legislation donating products to a charity is more costly than sending them to a landfill. When the company writes the products off and destroys them, it can be reported as part of a company’s income, while the charity’s activities do not give the company any tax relief. The donation should be reported as an expenditure/losses, and cannot be reported as income. Most likely, the legislation is designed in this way in order to fight corruption, but in terms of sustainability, the legislation is not supportive of corporate CSR activities.

On-going trends

Irrespective of the unfavourable tax regime with regard to food donation, some of the sampled companies from the FMCG industry partner with Food Bank Russia, which is a charity fund responsible for collection and distribution of food, personal hygiene products, household chemicals and other essential goods on a charitable basis to socially disadvantaged groups of the population [70]. Food Bank Russia helps Russian companies to deal with business waste, as the companies are able to donate residual product stocks to them, which would otherwise end up in a landfill.

To summarise all the aforementioned points, the obsolete ‘command-and-control’ system often impedes many business processes, as the Russian fiscal system does not offer many incentives for industrial modernisation and waste, emissions and discharges’ reduction and avoidance, as well as financial stimuli for corporate philanthropy.

Notes

* Biomass is not listed as a renewable energy source that is subject to this state support measure.

Production of energy from renewable sources was the reduced tariff for oil transportation, deduction of research and exploration costs were the reduced tariff for oil transportation, and a single bidder sought wind capacity [68].

In 2013 and 2014 Administrator of the Trading System completed two tenders which aimed at disbursing state subsidies for the period of 2014-2018, with solar energy projects winning most of the bids, as those projects represented 904 MW of the 2020 target solar capacity of 1520 MW [56]. The tenders also attracted foreign investors. For example, the subsidiary Solar Systems of China’s Amur Sirius became one of the selected project developers, as the company indicated investment plans to start building a solar panel plant with the capacity of 175 MW in Russia in 2015. Although wind energy was allocated the largest proportion of the capacity that was subject to state support (i.e. 5.6 GW out of the total capacity of 6 GW), very few project developers have submitted their bids, and winning bids totalled only 156 MW of capacity. In 2014 out of 57 applicants, 55 bidders sought solar generation, three participants bid for hydropower and a single bidder sought wind capacity [68].
is of a highly declarative nature. Policy, they say, features the formal implementation of the ‘polluter pays’ principle due to the existing implementation gap. 80% of environmental laws adopted in Russia have never been applied, according to the head of the Public Council of Rosprirodnadzor, Alexander Malyshevsky, who made a statement at the roundtable entitled “Environment and Large-Scale Business: How to Reduce Environmental Impact” that was organised by the RBC Daily newspaper on April 10, 2012. Some experts and academics claim that the insufficiency of state environmental and energy policies is one of the key factors in the low environmental performance of the Russian economy [72].

In Russia two adopted strategies have become the most definitive milestones for the national landscape on ‘greening’ the economy: “Basic Principles of State Environmental Development Policy of the Russian Federation ‘To 2050’” and the State Programme “Energy Efficiency and Energy Development for 2015-2020.” Between 2010 and 2015, several federal laws have been adopted which were designed as a support measure for environmental protection in Russia.

The Federal Law №219-FZ of July 2014 amended the Federal Law ‘On Environmental Protection’ №7-FZ (from January 2002), as it redefined the fees levied on enterprises, corporate entities and individual entrepreneurs for their negative environmental impact in several categories. As a follow-up, resolution Nº1029 (September 28, 2015) “On Approval of the Criteria for Classifying Objects that Have a Negative Impact on the Environment to the Objects of I, II, III and IV categories” classified all enterprises into four groups depending on the degree of their environmental impact from I to IV.

Category I refers to objects that have the most negative impact on the environment or emitters with discharges containing chemicals or compounds that are the most hazardous to human health and the environment. This category includes enterprises operating in ferrous metallurgy, producers of enriched iron ores, sulphur-containing hydrocarbons, chemicals, pesticides, and other pharmaceutical substances. Legal entities and individual entrepreneurs operating in the facilities that are classified as category IV (minimal environmental impact) are exempted from paying a fee for a negative impact on the environment. This classification of industrial enterprises or entire industries has been designed to determine the degree of the environmental impact in order to use it as a determinant of the future proportional measures of state regulation. This classification can also be considered as a preparatory measure for the introduction of a recycling fee.

The Federal Law №416-FZ “On Water Supply and Wastewater Disposal” from December 2011 requires all large industrial enterprises to either set their own local systems of sewage treatment or pay a higher fee for discharge. The initial versions of both Federal Laws №219-FZ and №416-FZ required enterprises to start paying environmental fees, starting from January 1, 2015 and January 1, 2016, however most of the new amendments as of mid-2015 postponed the date when the new developments were to enter into legal force until January 1, 2019.

**Implications**

With regard to environmental regulation in Russia, it can be assumed that very often it is not the absence of environmental legislation, but rather, a failure in law enforcement, that poses the major barrier for sustainability evolution in Russia. Newly adopted environmental strategies and policies require a significant improvement in the quality of regulations. In Russia environmental management relies primarily on the application of several regulatory instruments, namely environmental quality standards, permits and emission limit values, and environmental liability. The most common of these are environmental charges covering a very large number of air and water pollutants and solid waste generation, as well as fines for environmental offenses and claims for environmental damage. Pollution charges in Russia are levied universally on all ‘nature users’ that are subject to environmental permits. They are currently imposed on air and water pollutants [71], as well as on ‘placement’ (storage and disposal) of four categories of hazardous waste (based on toxicity) and two categories of non-toxic solid waste. Among mobile sources, enterprise-owned transport vehicles are charged for air pollution. In terms of the application of coercive regulatory instruments, fines are predominant. They are becoming more stringent but their collection rates are still unsatisfactory. Damage compensation are imposed but hardly levied. For example, in 2014 the amount of imposed fines totalled 1.2 billion rubles, but the fines levied amounted only to 872.6 million rubles [73]. As a result, authorities make frequent recourse to such radical tools as the temporary closure of enterprises or withdrawal of permits.

This imperfect state of environmental legislation and regulation causes the following implications for global businesses working in Russia. First of all, MNCs struggle with continuously changing legislation and regulatory requirements with regard to issues related to sustainability. Corporate legal departments have to monitor the issuance of new laws and amendments in order not to miss the newly announced transition period and lead time, and ensure compliance. Foreign companies also report the presence of the ‘red tape’ as one of the most pressing barriers.

Occasionally unforeseeable changes in the legislation might diminish the return on previously-made capital investments, and companies might have to duplicate them in order to comply with new requirements. Such instances related to the regulatory environment have major cost implications for the companies. It should also be noted that MNCs often refer to the absence of mandatory requirements for households and consumers, as the current legislation and regulation only addresses the issue of producers’ environmental and social responsibility. In Russia, households do not become subject to fines for failing to sort garbage and waste or operating obsolete vehicles that do not meet environmental standards. In Western countries, there is a more balanced application of regulatory instruments on producers and consumers.

**On-going trends**

Today, the key authorities responsible for formulating and implementing environmental policy and law at the federal level in Russia are the Ministry of Natural Resources and the Environment and the Federal Environmental, Industrial, and Nuclear Supervision Service. The compliance assurance functions are delegated to two federal authorities: Rosatom, accountable to the Prime Minister since June 25, 2010 [74], and Rosprirodnadzor, which is subordinated to the Ministry of Natural Resources. Another oversight body, which is becoming increasingly important especially for multinational corporations operating in Russia is the Federal Service for Surveillance on Consumer Rights Protection and Human Wellbeing (Rospotrebnadzor). For example, four McDonald’s restaurants in Moscow were temporarily closed in 2010 due to sanitary violations, following a Rospotrebnadzor order [75]. In 2015 Rospotrebnadzor restricted sales of household-chemical goods produced by Procter & Gamble, Colgate-Palmolive and Henkel AG over safety concerns [76].
LACK OF POTENTIAL PARTNERS SUCH AS INTERNATIONAL AND NATIONAL NGOS

**Context**

It is often suggested that domestic NGOs are an integral part of the institutional environment in emerging markets in the scope of institutional analysis on MNC behaviour [77]. Academic research suggests that the NGO community in Russia, as well as in India and China, has not imposed substantive pressures on MNCs until the early 2000s [78]. Although green NGOs may have little influence on a firm’s environmental activity in Russia [79], they have been playing a significant role in civic monitoring of environmental violations. In Russia NGO activism has also played an important role in driving the public consultation process as part of environmental impact assessment for sensitive infrastructural projects [71]. In the Russian development landscape, with the exception of Oxfam International and WWF, virtually all the international NGOs, such as Save the Children, Plan and Action Aid, are not present.

**Implications**

In terms of business implications, most of the sampled MNCs refer to the lack of traditional partners in the Russian market, as virtually all international NGOs which MNCs partner with in other emerging markets, are not present. For example, globally Oxfam International works with the private sector on transforming their business practices and implements projects in the fields of ethical trade and smallholder supply chains. Hence, some international NGOs have sufficient expertise which Russian (global and local) businesses could benefit from should such partnerships become feasible. Because of this reason of limited NGO presence, global companies are not able to transfer some of the projects they implement jointly with reputable NGO partners in other emerging markets. The extensive grassroots network enables MNCs to extend their outreach to the most remote areas in their provision of products and services. In Russia, most NGOs operate locally within a given territory, only in a few regions, and do not have extensive regional coverage. Because the Russian NGO landscape tends to skew towards watchdog and lobbyist type of players, multinational companies are often not able to find partners for joint activities focused on raising consumer awareness or transforming their own production processes with the NGOs’ assistance. Occasionally, global businesses have to start performing ‘alien’ functions that are more typical for the state or not-for-profit actors in their work with local communities.

**On-going trends**

In the past the NGO community has successfully mobilised all the available resources and joined efforts in their campaign against the Russian oil and gas company Transneft, which intended to build an oil pipeline within 800 metres of Lake Baikal, a UN World Heritage site. That environmental campaign led by an NGO coalition called “For Baikal” which united more than 50 organisations from different regions was probably the most controversial one in Russian history. Because of the public pressure and extensive media coverage, President Putin had to intervene, and in 2006 the decision was issued that required the pipeline to be re-routed 400 kilometres away from Lake Baikal.

It is possible to classify the ‘lobbyist’ category of NGOs which can be further split into two major large sub-categories or so-called coalitions, according to the focus of their activities: climate change and waste disposal. NGOs operating in these particular playing fields can be considered the most effective civic lobbyists. In the field of climate change activism, the following non-governmental organisations are the most active: WWF, the Social and Ecological Union, the Russian anti-nuclear organisation Environment Defence, which works in close cooperation with the Boerl Foundation, Bellina and Greenpeace. All these organisations act as the most active lobbyists of the climate change agenda in Russia, and “it is this coalition that put forward the idea and successfully lobbied for the adoption of the Climate Doctrine, its Implementation Plan, decisions on JI projects and Russia’s participation in the Clean Air and Climate Coalition (CCAC).” It could be argued that Russia’s climate coalition can be able to alter some decisions by criticizing them in public, but lacks recognition as an additional stakeholder group in the Russian decision-making system.” [80] Regarding the waste disposal issue, the following international and Russian nongovernmental organisations have joined efforts to promote proper waste disposal: Greenpeace, MusoraBolsheNet, the PRO Waste coalition, Separate Collection and the ECA. The main areas of activity of these public organisations include the elimination of landfill, promotion of separate collection and awareness campaigns [72]. Some of the other national NGOs that are active in environmental conservation are the All-Russia Society for Nature Protection, the Social and Ecological Union, the Russian Green Cross, the Russian Ecological Union, the Redi Environmental Public Movement, and the Russian Ecological Movement [71].

One of the major recent trends which affects the Russian NGO community in a negative way is the Russian ‘foreign agent’ law which was adopted in 2012. Many national NGOs report that the new law subjects them to additional audits and limits their ability to execute the mandate.

LACK OF AND LIMITED APPLICATION OF INTERNATIONAL AND NATIONAL CERTIFICATION AND/OR ECO-LABELLING SCHEMES

**Context**

Companies’ participation in voluntary self-regulation and market mechanisms such as environmental certification can potentially maximise shareholder value, as these instruments generate significant benefits for the company: improved access to capital, better stakeholder relations, access to new markets, greater customer loyalty and higher sales and lower operational and strategic risks.

‘Vitality Leaf’ certification

In Russia, the Greenpeace logo “Free from Chlorine” became the first example of environmental certification that was approved by the national standards body Gosstandart in 1998 (GOST P 51150-98) [72]. The logo was recognised as Russia’s first domestic eco-label, however it has never been actually applied. The presence of the ‘Free from Chlorine’ logo on the products guaranteed that no chlorine-based pollutant had been released into the environment at any stage of the product lifecycle: manufacturing, processing, refurbishing and recycling.

‘Vitality Leaf’ certification

As developed countries currently tend to be very wary of Russian certification bodies due to a lack of faith in their verification procedures, today the only internationally recognised Russian voluntary certification system that meets the ISO 14024 standard is “Vitality Leaf,” which was introduced by the national NGO St. Petersburg Ecological Union in 2001. In 2007 the St. Petersburg Ecological Union (renamed as the Environmental Union in 2015) was admitted as a member in the Global Ecolabelling Network. In 2011 after an external audit of the “Vitality Leaf” scheme, the programme was accepted into the Global Ecolabelling Network’s Internationally Coordinated Ecolabelling System (GENICES). The ‘Vitality Leaf’ programme has developed standards for the following products and services.
thermal insulation, cleaners and detergents, PVC floor covering, wall gardening, LED lamps and lights, shampoos and soaps, gypsum plasterboard, dry building mixtures, flat glass, laminated floor covering, offices, hotels, shops and agricultural production [81]. TARRIETT, Saint-Gobain, Splat, Samsung, Corinthia St. Petersburg hotel and some other Russian companies have been audited and have being granted the right to apply the “Vitality Leaf” logo to their products and services.

In 2010 the “Vitality Leaf” programme expanded its coverage into the certification of office buildings.

At the moment, 40.91 million hectares of forests are covered by the FSC certification in Russia, 206 Russian companies have received a certificate for Forest Management, and 49% companies for Chain of Custody [83]. The most mass-marketed FSC-certified products that are available to the Russian end consumer are office paper, packaging and Tetra Pak. It is most likely that in the foreseeable future, FSC certification of all products would become a ‘business-as-usual’ trajectory for most wood, timber, pulp and paper exporters in Russia, in light of the more stringent legislation that has been recently adopted in some Western countries. For example, in 2008 the United States adopted a special amendment – the revised Lacey Act – concerning illegally logged Russian timber. The EU also decided to close its markets to illegally logged or processed timber and also banned illegal reprocessing of wood in 2010.

So far four offices have received the right to use the “Vitality Leaf” logo: Ingosstrakh’s building in Sochi, the Strelka Institute of Media, Architecture and Design in Moscow, Pricewaterhouse Coopers’ office in Krasnodar and the Olympic Organising Committee’s office in Sochi [72].

FSC certification

One of the global certification logos that is very well-recognised by Russian consumers is the Forest Stewardship Council (FSC) logo. At the moment, 40.91 million hectares of forests are covered by the FSC certification in Russia. Nine hundred and sixty three Russian companies have been granted the right to apply the “Vitality Leaf” logo: Ingosstrakh’s building in Sochi, the Strelka Institute of Media, Architecture and Design in Moscow, Pricewaterhouse Coopers’ office in Krasnodar and the Olympic Organising Committee’s office in Sochi [72].

On-going trends

In the absence of recognisable and reputable nationwide eco-labels, those Russian consumers who prefer to act responsibly are not offered sufficient choices of certified products. It is also not evident whether Russian consumers themselves have enough critical mass to drive the emergence of national certification bodies and a Russian version of the ‘Fairtrade’ brand.

FIGURE 23. THE FSC LOGO: HOW MANY INFLUENCERS CAN RECOGNISE AND EXPLAIN THE LOGO?

<table>
<thead>
<tr>
<th>TOTAL</th>
<th>44</th>
</tr>
</thead>
<tbody>
<tr>
<td>France</td>
<td>100</td>
</tr>
<tr>
<td>Germany</td>
<td>90</td>
</tr>
<tr>
<td>UK</td>
<td>50</td>
</tr>
<tr>
<td>USA</td>
<td>72</td>
</tr>
<tr>
<td>Japan</td>
<td>50</td>
</tr>
<tr>
<td>Brasil</td>
<td>20</td>
</tr>
<tr>
<td>China</td>
<td>10</td>
</tr>
<tr>
<td>India</td>
<td>10</td>
</tr>
<tr>
<td>Russia</td>
<td>22</td>
</tr>
<tr>
<td>Turkey</td>
<td>2</td>
</tr>
<tr>
<td>South Africa</td>
<td>20</td>
</tr>
<tr>
<td>Netherlands</td>
<td>10</td>
</tr>
<tr>
<td>Belgium</td>
<td>20</td>
</tr>
</tbody>
</table>

Survey question: We asked influencers “Do you know the FSC logo? What does it mean to you? Does (would it) add value to your products?”

Source: Tetra Pak (2013) [82]

At the moment, 40.91 million hectares of forests are covered by the FSC certification in Russia, 206 Russian companies have received a certificate for Forest Management, and 49% companies for Chain of Custody [83]. The most mass-marketed FSC-certified products that are available to the Russian end consumer are office paper, packaging and Tetra Pak. It is most likely that in the foreseeable future, FSC certification of all products would become a ‘business-as-usual’ trajectory for most wood, timber, pulp and paper exporters in Russia, in light of the more stringent legislation that has been recently adopted in some Western countries. For example, in 2008 the United States adopted a special amendment – the revised Lacey Act – concerning illegally logged Russian timber. The EU also decided to close its markets to illegally logged or processed timber and also banned illegal reprocessing of wood in 2010.

Implications

This particular barrier has implications for several fields. It is closely related to ‘Sustainable sourcing’ and ‘Low consumer demand for sustainable products and services’ barriers. While multinational companies require suppliers to go through the certification process in order for the sourcing process to qualify as sustainable, Russian consumers are still not able to differentiate various certification logos whenever they are marked on the packaging. Companies become hesitant about investing in eco-certification, as the returns on such investment tend to be low due to consumers’ low awareness. Because of all this, certain companies are able to exploit the sustainability theme and use ‘greenwashing’ methods in communication with customers who are not able to differentiate ‘eco’ and ‘organic’ labels from ‘sustainable’ as well as quasi-sustainable products.

Context

In 2014 according to the Unilever request, Synovate conducted research on the importance of sustainable business and socially responsible initiatives among Russian consumers. Within the research framework 1,178 interviews were conducted in 18 cities across Russia. Respondents were asked to assess the importance of the following socially responsible business practices: health and hygiene, healthy nutrition, greenhouse gases, water, waste, sustainable sourcing and inclusive business.

Health and hygiene and healthy nutrition were identified as the most important priorities for Russian consumers, as 82% and 87% of all respondents assessed these two focus areas as either very important or rather important. Greenhouse gases scored at the bottom of that list, as only 63% of all respondents recognised that area as very important or rather important. Within these seven sustainable business practices the following initiatives were identified as the most important: safe drinking water, environmental protection, improving heart health, removing trans fat and reducing disease through hand washing. Another major research finding involved the demographic profiles of the surveyed respondents, as interviewees with higher education and residing in Moscow and Moscow region placed greater importance on issues related to social and environmental responsibility.

While in its research Synovate Comcon assessed consumers’ attitude towards corporate sustainable business practices, the Nielsen firm provides market research about consumer preferences and decision-making in relation to ethical consumption. According to Nielsen’s 2015 Global Corporate Sustainability Report, which was based on an online survey of 50,000 consumers in 60 countries, 61% of all Russian consumers are willing to pay more for the products of companies acting in a responsible manner towards the environment and society, an increase from the 2014 level of 38% [84].
Some of the multinational corporations have also analysed demand for environmental labelling among Russian consumers as a part of the worldwide environmental surveying exercise. For example, Tetra Pak has conducted environmental research on a bi-annual basis since 2005. The 2013 survey polled over 7,000 consumers and more than 200 food industry stakeholders in a total of 13 countries, including the U.S., Brazil, UK, France, Germany, Belgium, the Netherlands, South Africa, Turkey, India, Russia, China and Japan. The survey results highlighted a significant difference in the behaviour patterns of Russian consumers vs. other BRICS countries. Russian consumers have performed a lower number of sustainable actions across all mentioned categories in comparison to China and India, and across most of the categories in comparison to Brazil. The reported behaviour patterns of Russian consumers are more or less comparable to South Africa out of all the BRICS countries, and Turkey performed better in terms of ethical consumption and ethical lifestyles. In particular, Russia lags behind other emerging countries in terms of household recycling practice, with a reported rate that was alarmingly low (13%). The most optimistic observation was related to the reasons behind the decision of purchasing environmentally friendly products, as Russian consumers reported the highest response rate (58%) for the option “because they are higher quality than ‘regular’ products.”

*Surveyed consumers were asked the following question: “How much did the specified factor affect your decision to purchase a product last week?”

**Implications**

As consumers adopt more sustainable attitudes and transform their lifestyles to incorporate various social and environmental concerns, they are raising their expectations for corporations when it comes to purchasing. By integrating sustainability into their business models, global companies can increase goodwill toward their brands.

**On-going trends**

In Russia ethical consumption is still in its infancy, however the ‘green’ movement is growing stronger, especially in metropolitan areas, where there is currently an upward trend for everything that can be characterised as being ‘eco’, ‘bio’ and ‘organic’. Although Russian consumers are highly educated and able to make an informed decision, they still experience difficulties differentiating genuinely sustainable products. Russian consumers have passed the stage when responsible consumption concerned solely purchasing authentic, non-counterfeit products. Today their purchasing decisions are primarily driven by health, well-being and safety features of the product content, but not by the issues related to responsible production and environmental impact.

Once Russian society matures further, consumers will be more vocal in their demands for environmentally friendly products that are compliant with the standards of a circular economy and sustainable product lifecycle. In the meantime, there is still an intention-action gap among Russian consumers who are not always willing to pay a price premium for sustainable and/or certified products. In the absence of active not-for-profit sector that traditionally works in this field, global business has to work on educating and raising consumer awareness in Russia.
PREVALENCE OF SHORT-TERMISM

Context
This is probably the most challenging barrier to tackle, as external short-termism is not within the control of MNCs, and they can do very little about it.

Implications
Any company faces this type of barrier from two perspectives, as short-termism is present internally (as a part of corporate strategic approach and mindset of senior management), but also externally (on the side of all external stakeholders and business partners).

This barrier has become more pressing for global and local businesses during the past two years.

MNCs report that their long-term planning ability has been impaired by the challenging geopolitical situation. As national governments reciprocate in the geopolitical crisis by freezing business relations, companies have to adjust to the new business reality very promptly, often in a matter of days. That resulted in localising sourcing at a much greater extent as a part of contingency planning and risk management, as some MNCs experienced the situation when they were no longer able to source products from certain markets and had to divert their supply chain to new markets.

On-going trends
Renowned Russian entrepreneur Ruben Vardanyan emphasizes the importance of long-term thinking as a success factor [86]. He argues in favour of long-term planning with the time horizon of 20-25 years at different levels: national and regional government, private sector and individuals. In Russia the system of strong institutions is underdeveloped, hence the continuity of certain initiatives is often dependent on favourable relations with key decision-makers and company’s lobbying power. This is especially pertinent at the regional level, as any turnover of elites and regional authorities leads to a need to rebuild relations in order for a certain initiative to resume.

FIGURE 26. PLANNING HORIZON OF GOVERNMENT DECISION MAKERS

Source: Auzan, A. (2016) [85]
Impactful business cases presented in the Chapter 2 show that the barriers can become a source of business opportunity and competitive advantage if the company succeeds to address them. That is not a general way to practise corporate sustainability, but an approach that allows companies to become leaders in transitional business environment.

Among ten barriers identified in the research six were successfully addressed by the sampled MNCs. The remaining four barriers are traditionally considered to be positioned within the scope of influence of the state authorities. At the same time, a brief observation of international best practises suggests that there are some alternative solutions which MNCs apply globally, but have not found a proper format for implementation in Russia yet.

**TOOL 4. GLOBAL AND RUSSIAN EXPERIENCE OF ADDRESSING THE TEN BARRIERS**

**TABLE 14. TOOL 4. GLOBAL AND RUSSIAN EXPERIENCE OF ADDRESSING THE TEN BARRIERS**

<table>
<thead>
<tr>
<th>BARRIER</th>
<th>EXAMPLES OF ADDRESSING THE BARRIERS NATIONALLY</th>
<th>EXAMPLES OF ADDRESSING THE BARRIERS GLOBALLY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack of sustainable suppliers</td>
<td>McDonald’s tender partnership with Beloya Baku</td>
<td>Nestlé’s partnership with ES-SAL University in Brazil. The university provides R&amp;D support and training.</td>
</tr>
<tr>
<td>Lack of available labour force with expertise in sustainability</td>
<td>PepsiCo’s ‘educating for agriculture’ initiative</td>
<td>Cargill’s partnership with Coca-Cola and WWF in Sungai sustainable agriculture program, China.</td>
</tr>
<tr>
<td>Inaccessibility or unavailability of sustainable infrastructure, technologies and solutions</td>
<td>Unilever’s zone non-restitution waste to landfills</td>
<td>Collaboration of Philips Institute of Public &amp; Environmental Affairs (IPE) in China to monitor the performance of suppliers.</td>
</tr>
<tr>
<td>Lack of external financing mechanisms for example, green finance</td>
<td></td>
<td>LG Electronics’ launch of a Technical and Vocational Education and Training College in Ethiopia to provide technology training to local students. The centre construction is financed by the Korea International Cooperation Agency.</td>
</tr>
<tr>
<td>Limited applicability of fiscal instruments as sustainability incentives</td>
<td></td>
<td>Other actors can take the lead. The Mongolian Ministry of Environment Development and Tourism (MEDT) and the Mongolian Business Association (MBA) in collaboration with Global Green Growth Institute (GGGI), the Partnership for Action on Green Economy (P4G), the United Nations Environment Programme Finance Initiative (UNEP FI) and the Education for Sustainable Development (ESD) Program launched the Green Credit Fund program.</td>
</tr>
<tr>
<td>Imperfect legislation and regulation</td>
<td></td>
<td>Technical assistance from multilateral institutions (UNDP) is collaborating with national authorities to implement the National Programme on Sustainable Consumption and Production (SCP) for Ghana (2017-2021), a comprehensive strategy aimed at fostering technological and social innovations.</td>
</tr>
<tr>
<td>Lack of potential partners such as governmental and national NGOs</td>
<td>Industrial associations: RoPPEL, IAC</td>
<td>The Green Choice Alliance (GCA) is a coalition of Chinese NGO organizations that promote a global green supply chain by pushing large corporations to concentrate on procurement and the environmental performance of their suppliers. The Consumer Goods Forum pledges to work for zero deforestation by 2020 in its farmers’ sustainability supply chain.</td>
</tr>
<tr>
<td>Limited application of certification</td>
<td>St. Gobain’s case CAREC certificate</td>
<td>Partnership of GEF, BSEF and GEF to promote the world’s first production of copra in Philippines, certified by Rainforest Alliance.</td>
</tr>
<tr>
<td>Low consumer demand for sustainable products and services</td>
<td>Toyota’s programmes for safe disposal of used cars</td>
<td>Renault-Nissan to collaborate with a local NGO in Nigeria, to protect and restore degraded surfaces.</td>
</tr>
<tr>
<td>Prevalence of short-termism</td>
<td></td>
<td>Toyota’s launch of Prius hybrid model.</td>
</tr>
</tbody>
</table>

Global and local businesses perform a significant role in this type of partnerships ensuring business wise standards of work and inflow of investments. At the same time businesses do benefit from forming alliances with other organisations – both public and private – building new types of business models in emerging markets.
As Russia is ranked 50th in the IEMS Sustainability Composite Index, its level of sustainable development surpasses that of more than other 90 constituent countries. During the 2000s, thanks to high oil prices and Russia’s endowment in fossil fuels, the country has accumulated large federal government revenues which could be channelled into social and environmental programmes, e.g. ‘maternity capital’ certificates. In terms of the main sustainability challenges which Russia faces today, offsetting the environmental damage and industrial footprint generated as a result of the past resource-intensive industrial development is the most pressing priority to be addressed. Minimising environmental footprint at the household and individual levels is another challenge at the country level. The high level of disposable income implies unsustainable lifestyle at the individual level, while the various marketing research studies give some indication of the premature stage of ethical consumption and potential appetite for sustainable products. As Russian citizens need just a ‘nudge’ in order to grow into responsible and active consumers which act as a sustainability driver themselves, the sustainability strategy at the country level can focus on raising consumer awareness required to minimise the environmental footprint of individual consumption. From the viewpoint of SKOLKOVO IEMS, only by shifting to the sustainable vision, Russia can capitalise on all its strengths, such as developed ‘hard’ infrastructure and high level of human capital, and become the best performer in the emerging countries’ pack, catching up with the sustainability leaders. The four-dimensional analysis of Russia’s sustainability profile demonstrates the country’s enormous potential to become the sustainability leader, driving the global agenda and introducing the most innovative solutions to the global problems of poverty, social inequality and environmental degradation.

Russia’s factor endowment has been a major determinant of the global businesses’ sustainability strategies, as the companies have always been able to tap a pool of educated and healthy labour force without having to invest in basic training, localise production and supply chains, divert funds from investing in basic ‘hard’ and ‘soft’ infrastructure, such as roads and ports, as all those facilities are in place. In Russia global businesses do not have to launch full-scale development-oriented CSR programmes aimed at raising the standard of living of local communities, however there is some other space outside of the scope of the basic needs’ satisfaction, which the private sector, in particular, global businesses, can fill in.

This guide has generated a comprehensive ‘toolkit’ consisting of four key instruments, all of which point to the possible frameworks which MNCs can utilise for identifying their key priorities and assessing their performance. Tool 2 of the ‘toolkit’ has identified the three main building blocks of any corporate sustainability strategies: products, operations and stakeholders, while Tool 3 categorises the impactful business cases into the three areas for maximising sustainable impact: chains, consumers and communities. Today a comprehensive sustainability strategy cannot have a narrow focus and prioritise only a few issues. It has to be structured as a complex matrix and be balanced across all these blocks and areas. A company has to aspire not only to become a responsible producer, but also act as a catalyst of ethical consumption. It has to educate suppliers and raise consumer awareness. In this research sampled business cases illustrate the presence of financial rationale and sound business models underlying social and environmental investments. Most initiatives implemented as a part of the Operations building block, especially the ones linked to energy efficiency, lead to cost savings. At the same time, sustainable products have an impact on brand loyalty and corporate revenues. In the sustainability context a price tag of corporate inaction has already been quantified, and because of that visionaries refer to the PNL and cost-and-benefit analysis in their discussion about sustainability.

Due to its ‘transitional’ nature Russian business environment is dynamic, and because of that it offers many business opportunities to the market leaders. Certain MNCs which adopted the long-term vision upon their entry into the Russian market have been successful at transferring the global best practices and transforming the sustainability landscape. Thanks to their social investments in Russia, some of the past barriers have been successfully tackled. This gives hope that the ten external barriers which are presented in Chapter 3 will become irrelevant in the foreseeable future.

GLOBAL EXPERIENCE SUGGESTS THAT MARKET LEADERS ARE NEVER THOSE WHO WAIT FOR GUIDANCE FROM AUTHORITIES, BUT RATHER THOSE WHO FORESEE EMERGING MARKET OPPORTUNITIES AND EXPLORE UNCHARTED TERRITORIES.

Indisputably, sustainability itself is that very business opportunity, and not a barrier. In this process various stakeholders can be engaged for realising the corporate sustainability strategy as ‘change agents’, e.g. think tanks, media or opinion leaders. To summarise, various forms of collaborations and partnerships are the key enabler for the evolution of corporate sustainability in Russia, as well as anywhere in the world.
APPENDIX. IEMS SUSTAINABILITY COMPOSITE INDEX METHODOLOGY.

Economic dimension (25%):
Source: Economic Wellbeing Dimension, Sustainable Society Index (2014 data);
Indicators: Organic Farming, Genuine Savings, Gross Domestic Product, Employment and Public Debt

Social dimension (30%)
Source: Human Wellbeing Dimension, Sustainable Society Index (2014 data);
Indicators: Sufficient Food, Sufficient to Drink, Safe Sanitation, Education, Healthy Life, Gender Equality, Income Distribution, Population Growth and Good Governance

Environmental dimension (25%)
Source: Composite of Environmental Performance Index (2014 data) and Biocapacity Reserve/Deficit, WWF/Global Footprint Network* (2012 data);
Indicators: Endowment of natural resources (ecological footprint and biocapacity) - cropland, grazing land, forest land, fishing areas, built-up land and carbon emissions; quality of ecosystem protection and resource management - health impacts, air quality, water & sanitation, water resources, agriculture, forests, fisheries, biodiversity & habitat and climate & energy

Governance dimension (20%)
Source: World Bank’s Worldwide Governance Indicators (2014 data);
Indicators: voice & accountability, political stability & absence of violence/terrorism, government effectiveness, regulatory quality, rule of law & property rights & judiciary independence, control of corruption.

* The main limitation of most existing environmental metrics such as EPI or the environmental wellbeing dimension of the SSI is their focus on the countries’ environmental management of natural resources and environmental policy developments. These indices disregard countries’ natural resources endowment and biocapacity reserves. Because of these reasons, it has been decided to adjust the 2014 EPI scores by the constant factors, which were determined by the 2011 biocapacity reserve/deficit values, as calculated in accordance to the Global Footprint Network methodology.
REFERENCES


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Established in 2006, the Moscow School of Management SKOLKOVO is the largest private business school in Russia. SKOLKOVO trains business leaders to apply their professional skills in dynamically developing markets, training leaders who will set up and run their own businesses and lead the development of the Russian economy. SKOLKOVO offers a range of academic programs, including a full-time international MBA, an Executive MBA, corporate executive education programmes, the SKOLKOVO Startup Academy for young entrepreneurs, and the SKOLKOVO Practicum. The SKOLKOVO community brings together those who believe that an entrepreneurial approach and proactive attitude are the key to the successful development of the Russian and global economies. This includes representatives of the largest Russian and foreign companies, small and medium businesses, and public authorities.

SKOLKOVO Institute for Emerging Market Studies addresses the fields of strategy and innovation, global markets and institutions, «soft power» and digital technology. The mission of the institute is to promote Russia’s multi-dimensional and seamless integration into the world economy. The institute helps the international business community better understand Russia as a market and as a global player, and supports the efforts of Russian businesses to attract investors and enter international markets.

SKOLKOVO Sustainable Business Lab is a centre of expertise aimed at conducting problem-oriented interdisciplinary research, with a focus on business models that combine economic, environmental and social dimensions. Its primary goal is to promote a sustainability agenda in Russian and CIS markets through extensive outreach of research results and education of a new generation of responsible business leaders.

For more information please contact:
sustainability@skolkovo.ru

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