

# *Corporate Social Responsibility: Problems and Potential for Development on the Regional Level*

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**Abstract** — Nowadays company management must focus not only on economic but also environmental and social development. Implementing corporate social responsibility principles means development and application of reasonable company management strategy, monitoring company activities and corporate social reporting; however, this policy brings no short-term benefit and quality results need at least five years to be achieved. Meanwhile, implementing corporate social responsibility has its difficulties. Company management has to spend a lot of time and effort and top managers need to distract from relevant and urgent matters. The analysis of opinions of various stakeholder groups on corporate social responsibility revealed that regional and local authorities expect business to implement CSR principles without providing any support for social initiatives. But despite lack of regional state policy on CSR implementation, several companies in the Republic of Kalmykia demonstrate socially responsible behavior thus having a positive impact on regional socioeconomic development.

**Keywords** — *corporate social responsibility, social investment, regional economy, environmental responsibility.*

## I. INTRODUCTION

Nowadays, due to long-term sustainable growth, all developed countries have a stable system of relations between society, state, and business structures. Russia's economy also demonstrates the tendency for deeper cooperation between the state and business, the result of which is the development of corporate social responsibility (CSR). Many companies point out a direct correlation between financial results and socially responsible behavior. However, it must be noted that few Russian companies implement CSR principles. The main reason for this is lack of systematic state support that would create favorable conditions for stimulating social responsibility, consult companies on social investment, coordinate and control business activities related to social

responsibility for all stakeholder groups. Also, there is an uneven distribution of socially responsible companies among Russia's regions. In large industrial regions, organizations tend to take social responsibilities, while in regions like the Republic of Kalmykia, which do not have big industrial corporations, there are few socially responsible companies. Thus, studying the role of state in providing conditions for CSR implementation is of great theoretical and practical importance.

There are many concepts of corporate social responsibility that can be divided into three main groups. The first one is the corporate egoism theory pioneered by Milton Friedman in his article entitled, "The Social Responsibility of Business is to Increase its Profits" (1970). The theory claims that corporate social responsibility is to maximize profits and has negative attitude towards any directions not related to gains. The second concept is opposed to Friedman's ideas and is called corporate altruism theory. It means that companies must contribute to social and economic improvement and actively take on social responsibilities.

The third concept is one of the most influential centrist theories, the rational egoism theory. According to it, social and environmental investments will create favorable conditions for profit increase and business development in the long-term perspective [1, 2]. In our opinion, the rational egoism theory should be the basic principle of state CSR incentives.

## II. MATERIALS AND METHODS (MODEL)

The methodology of this research is based on concepts and hypotheses provided in works by compatriot and foreign economists as well as on practical studies concerning the role of the state in stimulating socially responsible business behavior and corporate social responsibility on the regional level.

### III. RESULTS AND DISCUSSION

Nowadays company management must focus not only on economic but also on environmental and social development. Modern agenda requires including environmental development and social issues to business strategy. However, all these changes and transformations must not violate interests of all interested parties. The key direction of such management policy is monitoring that help stakeholder to find out if any changes actually took place and if they benefited the company. Corporate social responsibility involves transparency combined with efficient internal management.

In the last decades a company's business reputation became a key market assessment indicator. High reputation provides annual growth of shares value and increased recognition of company brands [3].

For example, many organizations prefer to have their own clinics for the employees with qualified medical personnel and modern equipment or compensate expenses for vacation of their employee's children. However, the best results of applying CSR principles can be achieved only when company's social and environmental activities are directly related to its business.

It is common to see examples of inaccurate or incorrect interpretation of CSR. For instance, some researchers believe that CSR policy should focus only on lawful payment of taxes. Others suggest that CSR is a new way of PR campaign or charity and social incentives have an advertising effect without changing work principles of a company. Others claim that the concept of corporate social responsibility involves bureaucratic procedures or extra expenses that are unable to provide financial profits and distract the company from more important business objectives. Some believe that CSR concept is applicable only to large corporations and business groups or that CSR is just a management tool for selling new products and services. According to an alternative opinion, CSR even deserves no attention of top management [4].

It should be noted that CSR is becoming more important due to key directions of international business practice. The first tendency is related to increased awareness of limited natural resources are coupled with constant population growth. Every year new problems for future generations emerge because of rapid consumption of non-renewable natural resources. However, recognition of these problems remains on a low level and science and business must put more efforts to address these issues. For instance, problems related to limited carbohydrates reserves and usage of renewable resources have been discussed globally for three decades but oil exploration keeps developing, while oil reserves are declining.

The second tendency is global warming and constant environment pollution posing a threat to people and business activities all over the world that will remain for decades. Many organizations inflict significant damage to the air, water, and soil. The current situation gives business representatives an opportunity to establish main directions of their environmental and social activities because the company's efficiency relies on health condition of its employees. Besides, business reputation and its long-term growth directly depend on

regional environmental situation and health of local population, just like survival of the mankind depends on health and environmental safety on the global level.

The third tendency is that many countries adopt regulations controlling environmental impact of exploration and usage of natural resources. Global multinational corporations, such as Shell, General Motors, and British Petroleum voluntarily provide social and environmental reporting. For the global business, the key factor is public control over social and environmental activities from the standpoint of stakeholders across various regions.

The fourth tendency increases the influence of CSR. Nowadays almost all information is available globally and any events, situations, and tragedies become known all over the world due to modern technologies, media and the Internet. It is evident that any information, regardless of its confidentiality, sooner or later goes public. For example, several decades ago Nike decided to improve its performance by partially shifting its production to developing countries. The corporation was trying to cut expenses on salaries and then deliver finished products to stores in the US and Europe. These strategic changes improved the company's financial results. However, US people criticized the reduction of local workplaces and lack of information about working conditions in India and countries in Africa. Later, the media published that Nike allegedly uses child labor in these countries. The company's reputation was damaged and its top management had to compensate negative consequences for company image. There are many examples of social or environmental mismanagement that damaged financial performance and market capitalization of a company.

The fifth tendency enhancing interest in business responsibility issues is the interaction of international financial markets. The information received by investors and financial institutions gets regularly updated and eventually they choose more reliable businesses basing on financial, social, or environmental criteria. It is easier for companies with positive reputation to attract additional monetary resources or get a lower credit interest rate. In other words, the positive reputation increases company's worth and enables to gain access to cost-saving financing of new projects. Several US investment funds are looking for "green" corporations, which have positive social and environmental reputation. For example, Calvert Online foundation believes that existing environmental and social problems have a great negative impact on our future. Thus, providing financial support to organizations, which are ready to address the problems of the future, is not only "noble" but reasonable from the business standpoint.

Implementation of CSR algorithms involves development and application of reasonable company management strategy, monitoring company activities and corporate social reporting. However, this policy brings no short-term benefit and quality results need at least five years to be achieved.

Implementing corporate social responsibility in commercial organizations is a complicated process requiring time and effort. Often it distracts managers from relevant and urgent matters. CSR brings no immediate and steady results. It

takes a lot of hard work to focus on the long-term potential while responding to current issues.

It should be noted that social reporting quality directly depends on previous activities and preparations [5]. There is no possibility to imitate social responsibility, while de facto violating occupational or environmental safety rules. This situation would damage business reputation and trust in the company, i.e. if a company takes responsibility for implementing CSR criteria; it has to be able to provide all the data on such activities. If a company already has a positive reputation, applying CSR projects would increase the number of customers because clients always prefer socially responsible companies over competitors.

Main CSR advantages are increase in production volume and quality [6]. Also, CSR solves staff turnover problems. Socially responsible companies have more opportunities for employing skilled and qualified personnel. Moreover, people are willing to be a part of a company with positive reputation. Other upsides provide financial benefits: socially responsible companies are more preferable by investors and consequently have access to financial resources and more opportunities for long-term investments [7]. Large investors tend to support transparent projects to reduce risks.

It seems reasonable to analyze how CSR principles are implemented in Russia, especially on the regional level [8, 9]. For our study, we have chosen the Republic of Kalmykia located in the Southern Federal District. This region specializes in agricultural business and has no large industrial companies. The authors have conducted a survey using random sampling method. The sample included representatives of small, medium and large enterprises performing various business activities in the region, thus forming a representative sample. The survey of top managers of various companies operating in Kalmykia showed that only 20% of respondents support corporate social responsibility ideas. Meanwhile, all the respondents said the local government must support and stimulate social projects and incentives. As for social financing, most organizations pay attention to stakeholder groups like clients and employees. None of the surveyed companies partakes in regional CSR support program provided by local authorities, while authorities themselves create no obstacles for implementation of social projects. As a result, many respondents concluded that if regional authorities support social initiatives of companies, organizations would participate more actively in social programs improving their reputation. The survey results emphasize the importance of joint efforts of business and regional government for social, economic and political development of the Republic of Kalmykia.

The survey of employees, clients, media, investors, regional and local authorities revealed that all stakeholder groups believe local business is not focused on social development. Meanwhile, each group has its own understanding of a CSR-focused company. For example, employees are more interested in due payments, social projects, for instance, sponsored recreational travels, training programs, and comfortable and safe working conditions. Clients want to purchase quality products or service at an

affordable price. The media believe the main objective of each company is to maximize its profit claiming that interdependence of profits and advertising expenses would benefit advertising and press agencies. Just like the media, investors care about profitability and this is the main criterion for potential investors. For investors, it is important that the company abides the law and is not involved in tax evasion, bribery, or financial frauds.

Regional authorities have a different position. They want to get maximal benefit from business involvement in social projects but make no effort in providing support or incentives. But regional support of CSR is the best way to achieve maximal result because regional authorities are able to create favorable conditions for socially responsible companies.

Based on the survey results, we can conclude that business representatives are aware of social responsibility but few companies actually implement CSR principles. This indicates the necessity for stimulating corporate social responsibility on the regional level.

The example of successful CSR implementation in Kalmykia is a social event organized by Caspian Pipeline Consortium-R (CPC-R). In early 2018, CPC-R supported the renovation and reopening of an elementary school building of Komsomolsky Secondary School named after N. Mandzhiev in Chernozemelsky District of Kalmykia. The renovation of the 1035 square meters of the two-story building, its supporting structures, roof, windows, insulation of the facade and remodeling of classrooms cost 23 million rubles.

In 2016 and 2017, 24 ambulance vehicles were given to the Republic Emergency Medicine Center. The total cost of the vehicles was over 20 million rubles. All the vehicles are provided with modern medical equipment.

Every year CPC-R management donates backpacks with necessary school items to first-graders. This project takes place in the regions where the company's oil pipeline is located. The total project cost is approximately 25 million rubles.

Other social events taking place in Kalmykia include systematic equipping and renovating of healthcare facilities and sports complexes as well as support of talented youth.

Thus, despite lack of regional support of business, CSR initiatives, there are several cases of successful implementation of socially responsible behavior that have a positive influence on regional socio-economic development. For providing systematic and sufficient support stimulating CSR incentives among companies we outline the following directions for development [10]:

- constant increase of public awareness of CSR and its role in social development and of best regional practice;
- support and motivation of voluntary CSR events and projects by regional and local authorities [11];
- analytical and methodological support by scientific and educational institution of the Republic of Kalmykia;
- involvement of stakeholders in studying CSR problems;

- establishing business transparency;
- implementing CSR analysis and recording system;
- providing investment and tax incentives for socially responsible companies;
- developing regional and local legislative acts regulating CSR activities.

The survey results enabled to analyze corporate social responsibility of Kalmykia companies. The cooperation between socially responsible companies, their partners and clients can be efficient in case of stakeholders' feedback indicating that a company actually demonstrates socially responsible behavior [12].

In current situation, when regional authorities of the Republic of Kalmykia provide no strategy of CSR stimulation, several companies demonstrate examples of socially responsible behavior having a positive effect on regional socio-economic development.

#### IV. CONCLUSION

Currently regional and local authorities of the Republic of Kalmykia need to shift to promotion of corporate social responsibility, taking into account national institutional background. In a 10-year perspective, the CSR policy should establish necessary directions for forming socially responsible behavior of small and medium enterprises. If modernization strategy does not work, there will be a divide between SMEs and large companies that would make CSR policy ineffective for all participants. Social responsibility must meet the criteria of improving national business reputation on foreign markets, providing social balance, establishing social reserve and securing sustainable economic development coupled with an effective solution of environmental problems. It must become an integral part of state strategy reflecting transparency of interactions between the state, people, and business entities.

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