CORPORATE RESPONSIBILITY STIMULATION INSTRUMENTS: MANAGEMENT AND EDUCATION

INSTRUMENTOS DE ESTIMULACIÓN DE LA RESPONSABILIDAD CORPORATIVA: GESTIÓN Y EDUCACIÓN

ABSTRACT: The history of state participation in the implementation and management of corporate social responsibility is investigated. The main approaches to the regulation of corporate social responsibility used in international practice are analyzed. It is noted that in modern Russia, the state participation in stimulating corporate social responsibility lacks the systemic approach that requires setting specific goals and stimulation instruments. Several instruments of education and financial stimulation of corporate social responsibility that can be used in the implementation of individual components of corporate social responsibility into the business entities’ practice are developed. Recommendations for the practical implementation of the organizational and economic mechanism for corporate social responsibility management are presented.


RESUMO: A história da participação do Estado na implementação e gestão da responsabilidade social corporativa é investigada. São analisadas as principais abordagens para a regulamentação da responsabilidade social corporativa utilizadas na prática internacional. Observa-se que, na Rússia moderna, a participação do Estado no estímulo à responsabilidade social corporativa carece da abordagem sistêmica que requer o estabelecimento de metas e instrumentos de estímulo específicos. Vários instrumentos de educação e estímulo financeiro da responsabilidade social corporativa que podem ser usados na implementação de componentes individuais da responsabilidade social corporativa na prática das entidades empresariais são desenvolvidos. São apresentadas recomendações para a implementação prática do mecanismo organizacional e econômico para a gestão da responsabilidade social corporativa.

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RESUMEN: Se investiga la historia de la participación estatal en la implementación y gestión de la responsabilidad social empresarial. Se analizan los principales enfoques de la regulación de la responsabilidad social empresarial utilizados en la práctica internacional. Se observa que, en la Rusia moderna, la participación estatal en el estímulo de la responsabilidad social empresarial carece del enfoque sistémico que requiere el establecimiento de objetivos específicos e instrumentos de estímulo. Se desarrollan varios instrumentos de educación y estimulación financiera de la responsabilidad social empresarial que pueden utilizarse en la implementación de componentes individuales de la responsabilidad social empresarial en la práctica de las entidades comerciales. Se presentan recomendaciones para la implementación práctica del mecanismo organizativo y económico para la gestión de la responsabilidad social empresarial.


Introduction

Currently, Russia is gradually developing a system of relations between the state, business, and society in which the institution of corporate social responsibility (CSR) plays an increasingly important role (SEKERIN; DUDIN; GOROKHOVA; BANK; BANK, 2019). The basis of the CSR principles is formed by two primary directions—benefits to the community and benefits to the business. When acting in accordance with these approaches, organizations demonstrate the interest of business in the life of society and contribute to its stable development (GOLDENOVA; STEFANOVA, 2013). Making a daily contribution to the development of society and social standards and norms and interacting with the CSR principles, companies improve the effectiveness of their business; socially-oriented companies are typically leaders in their industry (BOGOMOLOVA; USTUZHANTSEVA, 2020; BONDARENKO, 2020).

The realization of CSR results in a range of positive external effects for society, too. The so-called positive externalities include: 1) the timely payment of taxes and pension contributions; 2) reduction of health care expenses; 3) environmental protection; 4) social tension minimization; 5) overcoming negative externalities; 6) overall improvement of public welfare (BELIAEVA; ESKINDAROV, 2008; DUYUNOV; ZAKOMOLDIN, 2020). Therefore, the state is interested in the development of the indicated institution, and regulating
and stimulating businesses to implement socially important projects and programs is a part of the state business policy. Therefore, the conception of CSR regulates the conflicts of interest between society and business and the need for state participation in its implementation is apparent.

The current macroeconomic situation exacerbated in 2020 by the coronavirus pandemic remains highly challenging. According to the Ministry of Finance, the deficit of the federal budget of the Russian Federation mainly caused by the state participation in eliminating the consequences of the COVID-19 pandemic in 2020 will amount to 4.72 trillion rubles, or 4.4% of the gross domestic product (TASS, 2020). There is an objective problem of financing the social sphere in full capacity which calls for an interaction with entrepreneurship to redistribute the financial burden in the field of social security.

The methods of state influence on the realization of the CSR principles vary and can include both notifying the public of the importance and role of CSR in the development of the country and supporting and financially encouraging the voluntary implementation of social programs. Therefore, the interest in scientific studies analyzing the various methods of the state stimulation of the participation of business in the realization of social programs and projects as a part of CSR is quite understandable.

The problems of the state stimulation of socially responsible business behavior are covered by many scientific studies. A range of works touches upon the forms of state influence on enterprises’ participation in socially important programs, stimulating them to finance said programs partially or fully. Different aspects of said stimulation are studied in the works of Lesnykh (2017), Riabova (2016), Tsygvinsteva (2017), and Iudina and Tsovma (2020). However, none of the examined articles present comprehensive research of financial methods of CSR stimulation. In the present article, we attempt to fill this gap, characterize the practiced financial stimulation measures, propose our own options of financial stimulation, and develop the necessary recommendations for the improvement of current legislation.

The study hypothesis. The overall reduction in the tax burden presents one of the conditions for improving the effectiveness of financial mechanisms of CSR stimulation.

Materials and methods

The main method of the present study is the dialectical reality cognition method accompanied by the theoretical generalization, comparative analysis, analysis and synthesis, and deduction methods. The need for normative consolidation of the CSR stimulation
methods is substantiated via the logical method. Comparative analysis allows studying the international approaches to CSR stimulation used in world practice. The information basis for the study hypothesis confirmation is presented by current legal norms regulating the relations in the field of CSR, scientific studies on the problems of CSR, and statistical data on social project financing by Russian and foreign companies openly available on Internet resources.

Results

The formation of CSR in Russia can be divided into four stages:

Pre-revolutionary Russia demonstrated a primary form of CSR characteristic of all countries of that period: charity of primarily personal nature. The state did not set any requirements for business regarding social responsibility and civil society was not yet formed and could not convey its needs to business (TARANOVA, 2020).

At the second stage that took place in the Soviet period, the state forcibly transferred its social functions to enterprises that performed them in a planned manner (which can be illustrated by combine cities).

The third stage took place during the early post-Soviet period (1991–2000) when CSR was once more reduced to charity which was random in nature and primarily determined by the personal interests of company leaders. Payments were made from black cash registers and the philanthropists preferred to remain incognito to avoid problems with regulatory authorities.

At the same time, business orientation on the social needs of the state (voluntary or compulsory—charitable racketeering) and patronage over the state social institutions (especially from the city-forming enterprises) continued to exist in Russia. From 70 to 90% of the budget allocated by companies for social programs was spent on social benefits for employees and the rest was spent on contributions to social programs initiated by the state or on spontaneously emerging sponsorship projects (BADYKOVA, 2020).

Thus, the pre-revolutionary traditions of Russian charity were completely lost during the Soviet period and the first decades after the collapse of the USSR in the post-Soviet space were characterized by negative processes in the context of which acts that took the form of charity often served either fraud and deception, or the laundering of illegal proceeds. Researching such schemes, Sharifov studies the social activity of companies that replace the essence of the social partnership institute with the institute of corporate charity to create a positive image for public authorities and potential investors. As a result, it is not the social
responsibility program that is realized but rather the corporate charity program which implies the resources and finances being returned to companies through various schemes (SHARIFOV, 2008).

In the modern conditions (the fourth stage), the main instrument of the state influence on the social responsibility of business is the targeted program approach which involves developing common goals, setting priorities, developing programs, and consolidating resources to solve the social and economic problems relevant for a particular area. The implementation of the targeted program approach in the interaction between the state and business regarding CSR should be based on the following principles: 1) voluntary participation of businesses in resolving the social problems of the region of their location; 2) authorities creating a favorable climate for conducting socially responsible business at different territorial levels; 3) stimulation and financial and organizational support of socially important initiatives on the part of the local government; 4) coordination of social business programs with the priorities of the state social and economic policy. The implementation of these principles provides business and authorities with additional opportunities and ultimately ensures the development of human and social capital, increased environmental safety, increased investment attractiveness of enterprises and industries, the development of export potential, increased competitiveness, and several other opportunities (LESNYKH, 2017).

Although a tendency towards positive changes is currently present in this area, some problems remain—both the ones already mentioned and a range of other issues including the low activity of natural persons and high taxes paid both by the benefactor and the recipient. Increased taxation leads to business consciously or subconsciously trying to evade the law. The business community does not cease its attempts to change legal regulations to account for their interests as much as possible even if it is not consistent with the goals of the state social policy and the interests of workers. The reality of Russia is characterized by the fact that ensuring the interests of society requires not only compliance with the law but also refraining from abusing one’s rights and using the gaps and shortcomings of the law in solely personal interest (NURTDINOVA, 2015). Excessive taxes reduce the income of entrepreneurs and the social activity of the business. Moreover, entrepreneurs fear that part of the funds will not reach the social consumers since businesses cannot control the use of the funds the state obliges them to allocate. Business is interested in the transparency of its social contributions and the ability to designate the area in which its social contributions will be spent (RIABOVA, 2016). To resolve the contradiction between the interests of entrepreneurs and
the public interests of the state, it is necessary to reach a balance that will help to get closer to the welfare state ideals. It is necessary to highlight that public interest does not include any state interest even if it is reflected in law but only the ones that represent the needs of society. To entrepreneurs, CSR also presents a pragmatic direction that improves the quality of business management since it ensures increased staff productivity, better job applicants, reduced operating costs, and better sales and consumer loyalty (RIABOVA, 2016). In turn, the above-mentioned results in the improved financial performance of the company. Therefore, the practice of tax incentives for entrepreneurs investing in voluntary programs is quite justified.

Aside from the federal legislation requirements, the incentives to such contributions used in practice include the opportunities of access to concessional financing from the state. The state also takes action to ensure the ability of businesses to transfer its social expenses on employees further—to consumers, i.e., the society as a whole. This measure is ensured by the opportunities for enterprises and organizations to reduce the taxable base for the income tax (i.e., increase the cost of products, works, and services) by the volume of their own expenses in the social sphere—personal insurance (pension, medical, accident) of employees. Said opportunities are included in Article 264 of the Russian Tax Code (RUSSIA, 2000). Moreover, the reduction in the taxable base for income tax is allowed for the entire amount of expenses for compulsory social insurance and a part (12% of the pension insurance fund and 6% of the health insurance fund) of voluntary insurance costs. Therefore, the existing practice of the state stimulation of business for the development of corporate social programs allows transferring a major part of their corporate expenses to the whole society (SMIRNOVA, 2018).

Another form of financial stimulation of business for social activity is tax incentives and incentives for compulsory insurance expenses for enterprises in which disabled workers make up at least half of the staff (KRICHEVSKII, 2012). The above-mentioned financial stimulation instruments are currently the most popular; however, the financial instruments the state can use to stimulate companies’ participation in CSR are not limited to them.

Another financial instrument that can be proposed is the form of interaction of the state, banks, and business entities in which a company can apply for a soft loan after the actual fulfillment of corporate state responsibility. The peculiarity of this measure can be described as follows. For instance, a company needs a large loan for business expansion on favorable terms. When this need is identified, a company that lacks sufficient free capital to
expand the business participates in the CSR program. Through a communication link present between the CSR actor and the state, the indicated actor representing the interests of the company applies to the state to receive support for a large loan on favorable terms (PLOTNIKOV, 2017).

The state presenting the largest shareholder of banks like Sberbank and VTB can influence the issuance of a loan to the company on favorable terms directly through its representatives on the board of directors of said banks. The implementation of this financial regulation model satisfies the interests of all parties involved. The company receives a loan on preferential terms, a social program solving part of the social problems for the state is being implemented, and the bank receives a large client.

Another financial stimulation instrument that can be proposed is the cofinancing of social programs. If the needed resources are available, the state in collaboration with companies is able to channel resources to support voluntary initiatives to maximize their impact. This method allows attracting smaller and less wealthy companies that lack funds to independently organize and implement social programs to participate in CSR.

Discussion

The analysis of the American CSR model demonstrated that the state’s influence on the development of charity in the USA is realized primarily through financial methods involving income tax benefits. The total charitable contribution is simply deducted from taxable income (PORTER, 2008). However, Plotnikov (2017) believes that the introduction of this practice into Russian reality may lead to increased tax evasion via artificial charity models and, therefore, the introduction of American practice into the Russian economy is unacceptable.

Concerning the CSR lawmaking in Great Britain, it is important to mention the new Companies Act law of 2006 which introduced regular reports—business reviews requiring companies to disclose general information on environmental issues, employee relations policy, and interaction with the local community. The law came into force on October 1, 2008. Although to a lesser degree than in France and Denmark, this Act also consolidates nonfinancial reporting in a general form. At almost the same time, the parliament adopted tax incentives for investments in the social sphere. The Community investment tax relief (CITR) (UNITED KINGDOM, 2012) encourages private investment through community development finance institutions (CDFIs) for both nonprofit and profitable institutions located
in disadvantaged regions and having financial difficulties. Following certain conditions, CITR is designed for both individuals and legal entities as it proposes investment through loan-purchases of securities or equity participation in CDFI-accredited institutions. Benefits depend on the amount of invested funds and reduce investor income tax and corporate tax liabilities.

Tax reduction reaches up to 25% of the invested funds (PARKER, 2014). In addition to CITR, the government offers tax incentives to encourage corporate support with finances, equipment, and other material assistance to volunteers and local communities including transferring funds into salary funds and giving out presents. Active lawmaking in the CSR field is more characteristic of France than of Great Britain. The 2001 law “On New Economic Regulations” also draws our attention as the first law of the United Nations in the sphere of corporate management defining mandatory and detailed corporate non-financial reporting.

The common methods characteristic of Great Britain, France, and a range of other countries comprise including CSR in the public procurement system and stimulating socially responsible investment. Further on, we shall illustrate them with the example of France. Corporate social responsibility was introduced as a criterion for public procurement in the country in March of 2007 when the government has adopted a document (TSENTR GUMANITARNYKH TEKHOLOGIY, 2019) regulating the activities and expanding the powers of state organizations that procure goods and services. Although said organizations are unable to interfere in company affairs, they can still influence them through social and ecological requirements. For example, the conditions for concluding a contract may include a requirement to hire a certain number of specialists who are unemployed or undemanded in the labor market. Concerning socially responsible investment stimulation, it is necessary to note that to accelerate its implementation by banks, insurance companies, and fund managers, the French government adopted a law organizing the work of the Pension Reserve Fund to take the pressing social, environmental, and ethical issues into consideration. As a result, in 2003–2005, the volume of socially responsible investment in France grew from € 3.5 billion to € 8.8 billion (BRODHAG; TALIRE, 2006). The examples of France and Great Britain demonstrate the opportunities for the successful development of CSR. However, both the pan-European and national efforts for the development of CSR should also be qualified as serious pressure on the business. In these conditions, genuine voluntariness of CSR is certainly not the case.

Therefore, the comparative analysis of CSR practice in European and Russian business leads us to the conclusion that in Russia, the institutional norms of CSR and social partnership
mechanisms have not yet formed and the integration of the issues of CSR and sustainable development into the sphere of public policy has not occurred as it has in the United Nations. The social responsibility of the Russian business is characterized by an increased role of the political factor. The spread of CSR in Russia is more associated with pressure from the state and local authorities than from society. It is the state represented by the President of the Russian Federation that has defined the social responsibility of business as the main principle of interaction between the state, business, and society. Aside from the fact that the actors of socially responsible businesses in Russia are primarily larger companies, the practical implementation of CSR typically takes the form of social investments. As a result, the concept of social responsibility of business is becoming narrower.

Final considerations

The study of CSR models present in the global practice demonstrates that the participation of business in the life of society can either be strictly regulated by the state or be carried out independently influenced by specially created incentives and benefits. In the second case, under the pressure of civil initiatives, the state creates effective mechanisms for the stimulation of business to make contributions to the development of society including financial ones. Thus, a well-functioning structure of social management is formed. Overall, the conducted study demonstrates that there is a range of factors inhibiting the formation of CSR in Russia including the lack of a state stimulation system and unclear normative consolidation of its mechanisms including financial ones which, as practice shows, are highly diverse. Therefore, at the present stage of development of the CSR conception in Russia, the role of the institute of power consists in creating incentives for companies to make more effective voluntary contributions to the social, environmental, and economic spheres. The main and most effective stimulus is presented by reducing the tax burden for businesses and providing tax incentives for individual companies that practice CSR. Therefore, the hypothesis of the study was confirmed. The presented study can be continued by an analysis of nonfinancial CSR stimulation methods.
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