Analysis of trends and performance of CSR mining companies

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Abstract. Concept of social responsibility has become part of the strategic management theory; interaction with stakeholders is becoming an object of control, the categories of relationship and social capital are being formed and developed, and corporate social responsibility (CSR) is morphing into corporate responsibility. This modern approach is aimed at creating a relationship of trust with stakeholders, which helps to contribute to the development of both the local community and the country, as well as to the sustainable development of both the company and the national economy. The main characteristics of mining companies operating in mineral-extracting countries are their significant contribution to GDP and tax revenues, the influence of many unfavourable factors on the workers and the need to compensate for their effects, and a high level of human impact on the environment. All this determines the importance of ensuring their sustainable development and designing a strategy and mechanisms of interaction with society based on corporate social responsibility. The purpose of the study is to justify a systematic approach to corporate responsibility management in the development strategies of mining companies. In the article examines the position of CSR in the activities of mining companies, justifies the need for the transition to a proactive approach in the field of managing corporate social responsibility of mining companies.

1. Introduction
The activities of mining companies in mineral-extracting countries are characterized by a large-scale impact on the economy as well as the social and environmental spheres at various levels ranging from the district or the municipal formation to the regional or federal level.

Mining companies play an important role in the Russian economy as they greatly influence both value added and GDP. Many of Russian mining companies operate in adverse conditions of the Extreme North of the country, in the Arctic shelf and in outlying areas with poorly developed infrastructure and harsh climatic conditions. Among such areas are The Republic of Buryatia, Khabarovsk Krai, Krasnoyarsk Krai, Perm Krai, Primorsky Krai, Zabaykalsky Krai, Amur Oblast, Irkutsk Oblast, Tomsk Oblast, and Tyumen Oblast. A whole number of federal subjects are classified as situated in the Far North or equated to the Far North, among which are The Republic of Karelia, the Komi Republic, the Sakha Republic, the Republic of Tyva, Kamchatka Krai, Arkhangelsk Oblast, Magadan Oblast, Murmansk Oblast, Sakhalin Oblast, Yamalo-Nenets Autonomous Okrug, Khanty-Mansiysk Autonomous Okrug – Yugra, and Chukotka Autonomous Okrug. Adverse climatic conditions affect the quality of life of the local population. For example, in the period from 2000 to 2013, the incidence of disease among the population living in the northern regions per 1,000 inhabitants was 1.2 times higher than the average value on a nationwide scale. Moreover, life expectancy at birth was lower than in the rest of the country. Extreme climatic factors, which include long and harsh winters, particular patterns of temperature and humidity in summer, wind conditions,
the level of solar radiation, the nature of flora and other biotic components of ecosystems determine a complex environmental and social situation. Therefore, employees working in the regions mentioned above are entitled to a number of benefits, such as the regional salary coefficient, a salary increment for the length of time worked in the Far North (from 10% to 100% of the salary), and additional paid leave (16 to 24 working days).

Numerous studies prove that working conditions at mining enterprises are extremely hard and hazardous. It has been shown that workers become affected by a whole range of factors such as dust, toxic substances, noise, vibration, radiation, unfavourable microclimate, etc., whose levels often exceed established limits [1].

According to statistics of many years, employee benefits paid due to harsh climatic conditions as well as harmful and hazardous working conditions amount to more than 50% of labour cost in the basic materials sector.

Every year, the extractive sector in Russia produces more than 4 billion tons of waste, of which more than 90% is waste produced in the process of extracting mineral resources. Only half of the total amount of waste produced by the industry is recycled, the other half being either stored in the form of technogenic deposits or buried. During the period from 2005 to 2014, waste heaps and tailing dumps accumulated over 18 billion tons of waste, the total amount of which is estimated as exceeding 100 billion tons. The amount of waste increases annually by almost 2 billion tons. More than 300 thousand hectares of land are occupied by disposal sites, tailing ponds and tailing dumps [2].

Thus, mining companies have a pronounced effect on the economy, the community and the environment, which makes it important to ensure their sustainable development and corporate social responsibility (CSR).

It is necessary to take into consideration the fact that the state, being a regulator of macroeconomic parameters of market operation and a regulator of property rights to natural resources, is an extremely important stakeholder responsible for issuing requirements and restrictions in the economic, social and environmental spheres of the extractive sector. The state regulates mining licensing, monitors the competitive environment, forms tax and budget systems, provides workers with social guarantees and establishes requirements for environmental protection and environmental legislation. It should be noted that the institutional environment in subsoil use is characterized by a high degree of uncertainty.

At the same time, performers in the system of social responsibility stick to their own interests and preferences without considering the common benefit as their mission. Due to the high degree of uncertainty of both the environment and the behaviour of the performers, the main problem of economic agents (i.e. companies) is to choose the right solutions from a range of possible alternatives. In the course of their business activities companies are forced to combine goals that do not sit easily together, namely to constantly move to the target (which is an increase in the value of the company) and simultaneously respond to environmental changes [3].

2. Methods of the study
The study used the methods of analysis, synthesis and systematization of experience in the field of CSR mining companies. Information base of research are reports of sustainable development, data of open corporate sites of mining companies.

The paper applies a technology of systematization of data in tabular form and uses the matrix of the integral indicator of the effectiveness of corporate social responsibility. The target indicator shows how the principles of social responsibility are transformed into the strategic and tactical solutions of the company and it is used as an indicator of dynamics of achieving the company’s goals in the field of CSR.

3. Results and discussion

3.1. Modern theory of CSR
Society is viewed by the company as a system of stakeholders who influence the decisions made by the company and/or are affected by these decisions. Among stakeholders are customers, owners, employees, suppliers, competitors, government agencies, local communities, etc. Thus, the company has to respond to the complex system of conflicting expectations, shaping its strategy in the framework of sustainable development of the company [4].

The perceptions of social responsibility differ among companies, which results in varying degrees of use of CSR. A number of companies have the traditional (or limited) understanding of responsibility to employees and contractors. Some companies understand CSR in a broader way based on modern theoretical concepts that have been actively developed [5].

A number of Russian and foreign studies have shown that there is a strong link between corporate social responsibility focused on the interaction with employees and customers and the company’s financial results, which can be the basis for a synergistic effect and sustainable development of the company [6].

Modern economic literature and regulations contain a great number of definitions of social responsibility, which results in different interpretations of the term and different actions. The analysis of the definitions leads us to the conclusion that some of them emphasize the fundamental nature of CSR, which suggests the possibility of a broad interpretation in specific companies. A number of definitions show the general direction of social responsibility, its voluntary nature and connection with sustainable development. Some detailed definitions underline priorities in the process of implementing CSR and specific ways of implementation.

3.2. Study of the state of CSR in the activities of mining companies

The activities of mining companies are characterized by the following features: capital intensity; complex process flows; strong interdependence within an integrated company; a great number of stakeholders’ interests; social and economic consequences; a significant influence on related industries and regions; strong state regulation and in some cases direct involvement of the state. Moreover, mining companies are not flexible in adapting to changing external conditions (such as lack of resources and reduction of their quality or availability); neither can they produce products that are able to generate a steady cash flow. Mining companies are focused on long-term development strategies and take into account changes in the natural, human and financial capital.

The analysis has shown that the structure of CSR varies among companies and is characterized by different indicators reflecting the range of company’s activities which have an impact on society in the social, environmental and economic spheres. In their reports on sustainable development mining companies evaluate CSR by a number of indicators, such as participation in the development of the community, human rights, environmental protection, economic impact, employee development, labour relations, and management (see Table 1).

The choice of important points in the reports of mining companies is determined, firstly, by the use of GRI standards as a basis for reporting and by legal requirements imposing certain obligations on the company, for example, the need to achieve a 95% level of associated gas utilization or to solve energy saving issues. Reports also reveal other points which can be important to society, for example, the development of new offshore and Arctic areas by oil and gas companies. However, as a rule, these points are reflected in reports as part of the company’s business strategy or business plans, which means that they are viewed solely from the position of the company’s own interests.

Differences in points disclosed in reports are partly due to the nature of the companies’ activities, and the absence of CSR indicators included in the core set implies either withholding of information or the inability to work with such data, or it may mean that the company does not consider such points to be significant.
Table 1. CSR spheres of Russian mining companies

| Companies | Economy                  | Spheres                                  | Community                               |
|-----------|--------------------------|------------------------------------------|-----------------------------------------|
| **Oil companies** |                          |                                          |                                         |
| Gazprom   | The development of new areas and production methods | The level of utilization of associated petroleum gas (APG) (2-5); | Labour safety (4-18); Social safety net for workers (1-5); |
| Rosneft   | (1-2); R&D; Fuel quality improvement                 | Emissions, effluents, waste (2-5);       | Support of indigenous peoples (1-2);    |
| Tatneft   |                                                       | Energy consumption (2-3)                  | Programmes for the areas where the company operates (1-4) |
| Novatek   |                                                       |                                         |                                         |
| **Chemical and petrochemical companies** |                       |                                          |                                         |
| Nizhnekamsknftekhkim |                        | Emissions, effluents, waste (3-5);       | Labour safety (6-11); Programmes for the areas where the company operates (1-3) |
| Uralkali  |                                                       | Energy consumption (2-4)                  |                                         |
| **Metallurgical companies and other companies** |                       |                                          |                                         |
| Alrosa    |                                                       | Reduction and recycling of greenhouse gases (1-2); | Labour safety (5-16); Social safety net for workers (2-6); |
| Suez     |                                                       | Emissions, effluents, waste (1-6);       | Programmes for the areas where the company operates (1-3) |
| Metalloinvest |                         | Energy consumption and saving (3-4)      |                                         |

In order to estimate the efficiency of CSR management a cumulative indicator is used. This indicator is based on a target indicator and a performance indicator. The target indicator shows how the principles of social responsibility are transformed into the strategic and tactical solutions of the company and it is used as an indicator of dynamics of achieving the company’s goals in the field of CSR (Figure 1) [7].

![Figure 1. The cumulative indicator as an indicator of CSR management efficiency](image_url)

A number of companies (Alrosa, Lukoil, Uralkali) show fairly good results, but do not disclose their goals. There are also companies (Rosneft, Surgutneftegaz, Norilsk Nickel) which show a negative trend in one or more CSR spheres, but they set clear goals and provide measurable targets, thereby
giving grounds for a positive forecast. A fairly numerous group bringing such companies as Transneft, LSR Group, Evraz, and Sibur together is characterized by disclosing neither goals nor results. It should be noted that the sector in which the company operates is largely, but not fully responsible for the company’s position. Such companies as Metalloinvest, Severstal, SUEK, and Rusal occupy leading positions on both axes and it can be assumed that this is where approaches to targeted and balanced management of social and environmental aspects of business are shaped [7, 8].

Corporate value creation and growth should be based on long-term benefits for stakeholders (society, economy, sectors and regions) that are affected by the activities of mining companies. The following factors determine the choice of this approach:

1. The applicability of the approach to companies and projects in which not only direct effects, but also the impact on stakeholders plays an important role. This usually happens in public-private partnerships, in socially significant, strategic and cross-border projects, and in the territories of priority development. What distinguishes the assessment of the way mining companies influence the regions where they operate is the fact that both direct and indirect effects are involved and need to be taken into account.

2. The shift in the evaluation of the company’s activities and its projects to the effects on the beneficiaries, which makes it possible to affect their behaviour.

3. The expansion of management functions, including management of the interests of individual stakeholders, stakeholder groups and their interactions.

4. A more efficient interaction with stakeholders due to their participation in the monitoring and evaluation of mining companies’ activities.

5. The long-term nature of mining companies’ activities with a significant influence on the economic, environmental and social environments.

The basic ideas of the stakeholder theory are as follows [9, 10]:
- the company has relationships with a large number of groups and individuals (stakeholders) that make up its internal and external environment and affect the decisions made by the company or may be affected by these decisions;
- it is necessary to investigate the nature of these relationships, as well as the processes accompanying them and their results for the company and its stakeholders;
- the interests of all the stakeholders have the potential to be taken into account and met by a management decision.

The value of this approach lies in the fact that it enables companies to develop customized solutions for specific stakeholders and ensure long-term sustainability of the company by seeking balance between their interests [6]. The relative power of various interest groups is a key factor in the assessment of their values, so ranking them in relation to each other makes it possible to create a hierarchy of relative importance. However, all stakeholders can be seen as one unit with a number of contradictions that determines the trajectory along which the organization evolves [11, 12].

R. Freeman [13] formulated the following principles of relationships between companies and their stakeholders: continuous monitoring of stakeholders’ interests and understanding of their needs in order to ensure cooperation with the aim of creating value together; recognizing stakeholders as real people with their own values; the search for solutions that satisfy multiple stakeholder groups simultaneously; intensive communication with stakeholders, including minor and demanding ones; the company’s commitment to manage relationships on its own; negotiating with stakeholders on the basis of cooperation and strategy building; improvement of business processes with the aim of improving relationships; understanding of the relationship between economic performance and interaction with stakeholders; anticipation and minimization of conflicts between companies and society. Thus, the current conditions in which large mining companies operate are characterized by the transition from compensating for negative effects and responding to stakeholders’ requests to managing and influencing their interests [14].

One example of insufficient interaction between mining companies and their stakeholders is the project of Tomino GOK (Mining and Processing Enterprise) in Chelyabinsk Oblast whose
construction has not started so far due to the community’s negative attitude stemming from lack of information on the environmental impact of the development of the copper deposit.

Despite the projected positive results of the implementation of the project, such as payments to budgets of different levels to the sum of 78.7 billion roubles (with 60.4 billion roubles going to the budget of Chelyabinsk Oblast and 3.8 billion roubles going to the municipal budget) and new jobs in the region, surveys show that 51% of the population of Chelyabinsk Oblast are against the implementation of the project in the region. As for separate municipal formations, the construction of the facility is viewed negatively by 73% of respondents from Chelyabinsk and by 61% of respondents from Sosnovo, the area where the construction is intended to take place [14]. Despite the attempts of Russian Copper Company to make significant changes to the project, in particular, to abandon the ideas of hydrometallurgical production and placing tailings in the Korkinsky open pit mine and to strengthen the focus on social and economic issues, it is quite difficult to change public opinion in favour of the construction of Tomino GOK.

An example of effective interaction between the company and the state is the Sakhalin-2 project, which is the biggest project in the Russian Federation in terms of private investment. This megaproject includes world-class technological facilities for the extraction and export of crude oil and natural gas as well as a liquefied natural gas (LNG) plant. As of January 1, 2010, Sakhalin Energy, the operator of the project, paid 50 million U.S. dollars to the budget as bonuses for the deposits as well as 80 million U.S. dollars compensating for the costs of prospecting and exploration by the state. It also made contributions to the Sakhalin development fund to the sum of 100 million U.S. dollars and paid royalties in the amount of nearly 548 million U.S. dollars. Moreover, the state receives a share in profits ranging from 10% to 70%, depending on the internal rate of return. One of the conditions of Gazprom’s entering the Sakhalin-2 project provided for the transfer of one Sakhalin Energy preference share to the Government of the Russian Federation with the condition of dividend payment. This share brought the state about 1.4 billion U.S. dollars only in 2007, while it had been bought for a symbolic amount of $1. This example shows what an important stakeholder the state is for an oil and gas company [15, 16, 17, 18].

Public events in the form of dialogues with stakeholders and report hearings are a key factor in ensuring targeted communication with different audiences. For example, over a number of years Rosneft has been conducting up to fifteen dialogues in a single reporting period in the regions where the company operates and where its subsidiary assets are located. EuroChem has made an attempt to evaluate the effectiveness of interaction with its stakeholders and apply indicators that have been developed in its strategic planning. These indicators not only measure the quality of interaction, but they are also used by international investors to evaluate the company.

4. Conclusion
Large companies taking on the functions of the state differ in their volume of corporate social responsibility in such spheres as development of the community, support of human rights, environmental protection, economic impact, employee development, labour relations, and management. However, when preparing corporate reports, companies put their economic interests and focus on profits first.

The need for the transition to the proactive approach in the field of managing corporate responsibility of mining companies is justified by the expansion of the company’s goals and the inclusion of interests of a larger number of stakeholders which can be ensured by implementing the CSR concept in the theory of strategic management. CSR in this case is understood as a multi-level corporate responsibility to the community represented by the system of stakeholders with a variety of conflicting interests which should be managed in a systematic way aimed at maximizing the value they receive.

When considering long-term benefits, the high priority ranking of the state’s interests, the specific impact of mining companies on the areas where they operate and the long-term nature of their activities should be taken into account. Strategic development in large companies should be based on
the establishment of relations of trust with stakeholders, which could make it possible to evaluate the effects on the beneficiaries, to expand management functions, including management of the interests of individual stakeholders, stakeholder groups and their interactions, and to interact with stakeholders more effectively due to their participation in the monitoring and evaluation of mining companies’ activities.

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