Practices of Corporate Social Responsibility in Ukraine

INTRODUCTION

Responsible practices have become an integral part of companies’ operations. Facing the challenges of modern society leading multinational corporations are constantly adopting the system of responsible initiatives, giving birth to the new and implementing the existing approaches to sustainable development. Thus, Albert Mathieu, the president of Mondelez’s European biscuit business, commenting on the company’s sustainable wheat program called Harmony and inspiring other manufacturers and industries using wheat to adopt the same approach stresses the fact that “the Tescos and Carrefours of this world want to know more about how you are minimizing the environmental impact of your products”. He also adds that “wheat sourced under Harmony is non-GMO, because GMO is not an option for European consumers” [Nieburg, 2015]. This initiative is just a single example in companies’ CSR portfolio and Mondelez is just a single company among MNCs famous for their responsible practices. The 10 most reputable companies in CSR dimensions according to 2015 Global CSR RepTrak 100 have become Google, BMW, The Walt Disney Company, Microsoft, Daimler, LEGO, Apple, Intel, Rolls-Royce Aerospace and Rolex [Global CSR RepTrak 100, 2015, p. 6].

The term of “sustainable development” was first used in the 18th century with reference to the protection of tree populations in forestry and the use of timber in a sustainable way [Ebner, Baumgartner, 2006]. The concept was popularized in Our Common Future (the Brundtland report), published by the World Commission on Environment and Development (WCED) in 1987. This report

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also included the definition of sustainable development: “development which meets the needs of the present without compromising the ability of future generations to meet their own needs” [WCED, 1987, p. 43]. The focus on ecological issues in corporate sustainability has been broadened by economic and social aspects. Corporate social responsibility is mostly considered as one of the pillar of corporate sustainability. Sustainable development is at macro level, while at the micro level, in the organization, is corporate sustainability, which encompasses economic, ecological and social pillars, where CSR is the social pillar of corporate sustainability [Ebner&Baumgartner, 2006].

The concept of social responsibility was first presented by Frank Abrams in a Harvard Business Review article in 1951 [Abrams, 1951]. In 1953 Howard Bowen used the term “the social responsibilities of the businessman” and defined CSR as “the obligations of businessmen to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society” [Bowen, 1953, p. 6]. The most popular definition of CSR was given by Carroll [1979], which stated that “the social responsibility of business encompasses the economic, legal, ethical, and discretionary expectations that society has of organizations at a given point in time” [Carroll, 1979, p. 500]. During the 1980s and 1990s CSR was linked with business ethics, corporate social performance and stakeholder theory [Carroll, 1999; Epstein, 1987; Freeman, 1984; Hopkins, 1998; Wartick and Cochran, 1985]. Nowadays CSR is associated with triple bottom line (profit, people and planet) [Elkington, 1999] and represents the process of integrating economic, social, and environmental issues of corporate firms in order to achieve balanced growth in societies. The World Business Council for Sustainable Development (WBCSD) (2000) defined CSR as “the commitment of businesses to contribute to sustainable economic development, working with employees, their families, the local community and society at large to improve their quality of life” [WBCSD, 2000, p. 5]. The idea of M. Porter & M. Kramer (Creating Shared Value) to transform social problems relevant to the corporation into business opportunities, thereby contributing to solving critical societal challenges while simultaneously driving greater profitability has also become very popular among leading MNCs [Porter, Kramer, 2011].

Companies that invest in social responsibility and related activities get numerous advantages: higher stock prices, influence on policy making, access to acquisitions, more buying, attracting the best talent, higher employee engagement and alignment. The RepTrak Portfolio has outperformed the S&P500 Index since 2006 and has also done so by an increasingly wide margin since the financial crisis of 2008 [Global CSR RepTrak 100, 2015, p. 11].

The article deals primarily with the practices of CSR of leading in terms of sustainable development Ukrainian-based companies. In this regard we must admit that the development of CSR in Ukraine was rather pushed by business
than by society. Responsible initiatives were adopted by the subsidiaries of multinational corporations starting their operations in Ukraine and by enterprises forming a company town (monotown); companies planning to go public started to publish CSR reports, whereas it is a standard requirement.

**THE ENVIRONMENT OF CORPORATE SOCIAL RESPONSIBILITY IN UKRAINE**

A remarkable event in the development of CSR in Ukraine was the formation of UN Global Compact office in 2006. UN Global Compact is the world’s largest corporate sustainability initiative that calls companies to align their strategies and operations with universal principles on human rights, labor, environment and anti-corruption, and take actions that advance societal goals [Overview, (https)]. This initiative as at 7 January 2016 united 258 participants from Ukraine [UN Global Compact, (https)]. At the first sight we may observe a positive tendency in comparison with January 2015 when the number of participants was 184 and a considerable increase of interest among Ukrainian based members since 2006 the year UN Global Compact office was established in Ukraine when the number of participants was 34 [Представительство, (http)].

Searching the companies-participants in Ukraine on the official web-site of the initiative we get 54 results (in January 2015 – 25 results). But having investigated the problem more profoundly, we concluded, that among 54 companies there were only 17 active members, 6 were non-communicating (failed to submit a COP – Communication on Progress by the due date) and 31 were delisted. The delisted companies, e.g. the companies that were prior removed from the initiative’s database have again become viewable. Thus we may accentuate the willingness of the initiative to show the interest in the collaboration with it of the bigger amount of companies even despite the fact that most of them have been already delisted. Table 1 represents the participants of the UN Global Compact initiative in Ukraine from all three categories.

We may conclude from the table that relatively small amount of multinational corporations present in the Ukrainian market take part in the initiative. Nevertheless the headquarters of these companies and sometimes subsidiaries in the selected countries are the participants of the UN Global Compact. Thus, Coca-Cola Beverages Ukraine Ltd. is delisted from the initiative, but there are 8 participants of UN Global Compact, representing the company. We will not deny that political and economic conditions in Ukraine don’t favor the increase of business interest in sustainable initiatives. But it’s also worth mentioning that since November 2013 the UN Global Compact in Ukraine has been transformed in the union of companies-participants which had to pay membership fees [Сеть, (http)].
Table 1. The companies-participants of the UN Global Compact initiative in Ukraine (07 January 2016)

<table>
<thead>
<tr>
<th>Active</th>
<th>Non-communicating</th>
<th>Delisted</th>
</tr>
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Source: [UN Global Compact, (https)].

Since 2007 Gvardia, the famous Ukrainian business journal has started to publish annual rating of companies based on the assessment of their CSR reports. The latest rating dates back to 2013, when the leadership position was occupied by DTEK. System Capital Management Group was in fact the leader of the rating during all the period of its existence (in 2012 – the first position was occupied by Metinvest; in 2013 – by DTEK, all SCM companies) [Гвардия, (http)]. Thus we may stress the fact that the topic of corporate social responsibility has been gaining importance in Ukraine since mid-2000. The activity of the center “The Development of CSR” has contributed greatly to the popularization of sustainable practices by organizing the competition in CSR business cases among Ukrainian-based companies. The sixth publication according to the results of the competition (2015) contains 44 cases, grouped by spheres: corporate governance, labor relationships, communities’ development, environmental protection and fair operating practices (Fig. 1) [Практики, 2015]. It is also worth mentioning that last year (2014) the competition was not conducted.
The results of the competition conducted in 2013 were almost the same (most cases were presented in the category ‘communities’ development’; there were 2 cases in ‘corporate governance’ and no cases describing fair operating practices). Despite the fact that this competition gives an opportunity to get to know responsible initiatives of the Ukrainian-based companies, it hardly allows to judge about the level of CSR development within the companies-participants and in the economy as a whole. Thus a company may present separate CSR business case even without having published CSR report. Whereas COP (Communication on progress) reports can be accessed freely, it is difficult to estimate the number of companies publishing social reports according to GRI standards, AA1000, in a free form. According to the results of 2013 competition of the best non-financial reports conducted by the center “The Development of CSR” such companies as DTEK (GRI), SCM (GRI), Platinum Bank (GRI), Galnaftogaz (GRI) Interpipe (COP) were the winners [Нефинансовый, (http)]. Among the companies reporting according to GRI standards Obolon [GRI4, 2014 report], Metinvest [GRI4, 2013–2014 report], ArcelorMittal Kryvyj Rig [GRI 3, 2014 report] have also to be mentioned.

A little bit unsystematic approach to CSR is also proved by the investigation of motives that drive Ukrainian-based firms to engage in CSR, conducted by the Hertfordshire Business School (19 interviews with business firms and non-commercial organizations). It revealed that companies in Ukraine were pushed by the mix of utilitarian, societal and ethical motives. Despite the fact that the authors claim that the prevalence of instrumental motives seems to fit the interviewees’ expectation of the modern capitalist firm, ethical motive was the main
motive only for two investigated companies. The most widely mentioned instrumental motives are legitimacy, attracting customers and increasing customer loyalty, reputation, staff retention and safety, leading to profitability, attracting investors and risk management [Filosof, 2015, p. 7].

**Leaders of Sustainable Development in Ukraine**

It becomes obvious from the previous paragraph, that SCM (System Capital Management) Group occupies the leading positions among Ukrainian-based enterprises in terms of CSR development. SCM Group Sustainability reports outline company’s key CSR directions such as health and safety of employees, welfare and development of employees, local community development, protecting environment and raising energy efficiency, stakeholder engagement, corporate volunteering, quality of products and services, business ethics and corporate governance [SCM Group Sustainability Summary Report, 2014, p. 5]. Company has developed its Sustainability Policy the key principles of which are to take a whole system approach, to work efficiently and effectively, to respect interests of partners, clients and society, to provide good and safe working conditions, to respect human rights, to improve living standards in the regions of operations and across Ukraine, to commit to preventing and reducing the environmental footprint [SCM Group Sustainability Policy, p. 9].

One of the most interesting Group’s commitments was the project of creation of modern professional standards – profession passports – in three priority sectors: metallurgy, energetic and digital journalism, initiated in 2011. This project united the representatives of 23 Higher Educational Establishments, more than 30 Ukrainian companies and 4 Ministries. 8 standards, developed within the project, are approved by the experts of the European Training Foundation and European Council and are the only sectoral standards in Ukraine [SCM Group Sustainability Summary Report, 2014, p. 12]. Despite the war and the tense situation in the Eastern Ukraine, where a substantial part of Metinvest enterprises is located, the company was able to increase its social investments from 57.6 million Hrn. in 2011 to 133 million in 2014. Metinvest’s responsible initiatives were not limited to the humanitarian aid to the population of the zone of armed conflict, but also were connected with the reconstruction of the destroyed infrastructure of the region. The company invests heavily in the modernization of its enterprises in order to reduce their ecological footprint; develops ecological and educational programs within the communities it is present in. Moreover we must admit that Metinvest has launched portal http://kso.metrinvestholding.com/, where everybody may find information about company’s achievements in interaction with employees, ecological initiatives and development of the cities
DTEK is also famous for its infrastructure projects in the areas where it operates. Thus the company doesn’t simply invest in the development of cities, but also encourages the community to contribute to the projects. The company has organized the competition of the best ideas to improve the cities’ infrastructure through mutual financing of DTEK and communities. The projects that take part in the competition are connected with the enhancement of social sphere, popularization of the healthy way of living, development of education, culture and art, other municipal improvements [Практики, 2015, p. 60]. Despite the information offered by the Group in its reports and cases, at the end of January Metinvest announced it would cut a third of administrative employees due to the decrease of metallurgy raw materials and products prices. Moreover the working day for the administrative employees is decreased by 20% with proportional cutting down of salaries [Металлургическая, (http)].

The implementation of modern concepts of sustainable development may be found in the Ukrainian subsidiaries of multinational corporations. Due to the requirements of headquarters the subsidiaries of leading MNCs are working at the alignment of corporate strategies of social responsibility with the business environment of Ukraine. L’Oréal started to adopt its program Beauty For All, the aim of which is to offer the qualitative product to the customer by taking care of the environment and the planet on the whole. Better World of Sun InBev Ukraine unites three key CSR priorities in Ukraine: the promotion of responsible drinking of beer; environmental protection; taking care of the society. Henkel is developing responsible initiatives in three key spheres: participation in social projects, emergency aid and social partnership. Tetra Pak’s “Protect What’s Good” is about the protection of food, people and future. But probably one of the most advanced approaches adopted by the companies in Ukraine is Nestlé’s Creating Shared Value.

As a basis for responsible operations and business success over the long term, Nestlé believes it must manage its operations in a manner to comply with the highest standards of business practice and environmental sustainability. This involves compliance with national laws and relevant conventions, as well as company’s own regulations, which often go beyond its legal obligations. These are laid out in Nestlé Corporate Business Principles and related policy documents. Beyond that, how Nestlé does business is based on sustainability – ensuring that company’s activities preserve the environment for future generations. However, to build a profitable business for shareholders, company goes beyond compliance and sustainability to a third level: creating long-term value both for society and for shareholders. Nestlé starts the description of its shared value initiatives from the front covers of its reports. Ramón Malé Calcó from Spain is pictured on the front cover of Nestlé in society: Creating Shared Value and
meeting our commitments 2014 [Nestlé in society, 2014, p. 3]. He is a technical leader for the bottling line in the Nescafé Dolce Gusto factory in Schwerin, Germany, who was hired through Nestlé needs YOUth programme. The initiative to hire 10000 young people across Europe, 10 000 trainees and apprentices aged below 30 is designed to attract the talented youth a company will need to develop and grow its business. Besides We Need YOUth program education programmes for good nutrition and feeding practices for children (“Abetka harchuvannya” program), the Rural Development framework for understanding the needs of farmers and implementing responsible sourcing in supply chain (“Hospodar” program) are also among the most noticeable shared value initiatives of the company in the Ukrainian market (Table 2).

Table 2. Key Nestlé’s Commitments in Ukraine in 2014

<table>
<thead>
<tr>
<th>Sphere</th>
<th>Commitments</th>
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<tbody>
<tr>
<td>Nutrition</td>
<td>− 100% of products meet Nestlé Nutritional Foundation profiling criteria; − 98% of children’s products meet Nestlé Nutritional Foundation sodium content criteria;</td>
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<tr>
<td></td>
<td>− sodium reduction in sauces by 16.5 tones;</td>
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<td></td>
<td>− national educational programme “Abetka harchuvannya” (“Nutrition Alphabet”);</td>
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<td></td>
<td>− “Torchyn tasty stories” project;</td>
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<td></td>
<td>− 93% of products have Guideline Daily Amounts (GDA) labeling;</td>
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<td></td>
<td>− participation in Healthy Kids Global Programme</td>
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<tr>
<td>Rural development</td>
<td>− “Hospodar” program, aimed at the development of local suppliers;</td>
</tr>
<tr>
<td></td>
<td>− in March 2015 KitKat sold in Ukraine had been produced, using cocoa, purchased through the Nestlé Cocoa Plan</td>
</tr>
<tr>
<td>Water</td>
<td>− water consumption reduction at all Factories in Ukraine (by 4% in comparison with 2012)</td>
</tr>
<tr>
<td>Environmental sustainability</td>
<td>− waste reduction by more than 2% in comparison with 2012;</td>
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<td></td>
<td>− GHG emissions decrease by 3.5% in comparison with 2012;</td>
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<tr>
<td></td>
<td>− Energy consumption decrease by 3% in comparison with 2012</td>
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<tr>
<td>People, human rights and com-</td>
<td>− employment of 915 young people, apprenticeships, traineeships, cooperation with universities within Nestlé needs YOUth programme;</td>
</tr>
<tr>
<td>pliance</td>
<td>− NQ trainings for employees;</td>
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Adapted: [Nestlé в Україні, 2014].

Due to the enrollment of “Hospodar” program in Ukraine the percentage of imported materials was decreased to 30% in 2014, whereas 38% of materials had been imported by Nestlé in Ukraine in 2007. Despite the fact that local suppliers
have to comply with company’s high requirements, Nestlé assists them in getting acquainted with modern technologies, supports in acquiring the necessary equipment. Having become the local supplier of the company, a firm may be granted an opportunity to supply Nestlé’s enterprises in the other markets. Thus Nestlé’s subsidiaries in Check Republic, Austria and Switzerland have already become interested in the Ukrainian supplier of packaging materials [Nestlé в Україні, 2014, p. 6].

**CONCLUSION**

Whereas we are deeply convinced that the essence of CSR is practice, this article is called to analyze the state of corporate social responsibility in Ukraine by exploring the practices of the leaders of sustainable development. At the same time we’d like to stress the fact that companies’ responsible initiatives are the answers to the requirements of the society. The above mentioned study of motives that drive Ukrainian-based firms to engage in CSR, conducted by the Hertfordshire Business School, revealed a unique case (for the researchers). The interviewee owns and operates a farm, including leasing parcels of land from 500 landowners. His understanding of CSR was “first of all, live among people in such way that they benefit, rather than suffer from your activity”. He is convinced that one cannot live in the village irresponsibly, and one cannot work the land irresponsibly. By answering the question about reporting he mentioned that he is accountable to no one, himself only, and also to the elders – his mother, teachers, neighbors and relatives – they live in the village [Filosof, 2015, p. 8]. In the society where corporate social responsibility is not stimulated by the state (the national strategy of corporate social responsibility has not been approved in Ukraine), the society itself has to be a key driving force in the development of corporate social responsibility. Despite the fact that David Ozment, Walmart’s senior director of energy, commenting on company’s environmental projects, stressed that customers like the idea of installing solar panels, but do not want to pay a premium for their purchase for that [Bartha, 2015, p. 11], there is a growing demand for responsible initiatives in the US and European societies. In this connection we must agree with A.M. Kolot and others [А.М. Колота (ред.), 2012, p. 21] that an individual (a responsible family man, employee, citizen, participant of social groups, consumer and inhabitant of the Earth) stands in the center of social responsibility. Thus the increase of the level of culture and awareness in social aspects of living is an integral part and motivator of the transformation of Ukrainian-based company’s unsystematic responsible initiatives into the part of their business-strategy.
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**Summary**

The article deals with the practices of CSR of leading in terms of sustainable development Ukrainian-based companies. The development of CSR in Ukraine is rather pushed by business than by society. Responsible initiatives are adopted by the subsidiaries of multinational corporations and by enterprises forming a company town; companies planning to go public publish CSR reports, whereas it’s a standard requirement.

The participation of Ukrainian-based companies in sustainability initiatives (UN Global Compact), ratings (Gvardiya) and competitions (the center’s “The Development of CSR” business-cases competition) as well as the state of non-financial reporting of Ukrainian-based companies are analyzed. Thus according to the results of 2013 competition of the best non-financial reports conducted by the center “The Development of CSR” such companies as DTEK (GRI), SCM (GRI), Platinum Bank (GRI), Galnaftogaz (GRI) Interpipe (COP) were the winners. The responsible practices of Metinvest’s enterprises and the approaches to sustainable development of the subsidiaries of leading multinational corporations in Ukraine (Nestlé, Sun InBev, L’Oréal, Tetra Pak, Henkel) are presented.
The authors come to the conclusion that companies’ approaches to CSR in Ukraine are mostly fragmentary and unsystematic and the demand for responsible initiatives in the Ukrainian society is relatively low. In this regard the increase of the population’s level of culture and awareness in social aspects of living may become an integral part and motivator of the transformation of Ukrainian-based company’s unsystematic responsible initiatives into the part of their business-strategy.

Keywords: corporate social responsibility (CSR), sustainable development (SD), responsible practices, Ukrainian-based companies.

Praktyka społecznej odpowiedzialności biznesu na Ukrainie

Streszczenie

Rozważania podjęte w opracowaniu koncentrują się wokół działań z zakresu społecznej odpowiedzialności biznesu (CSR) podejmowanych przez ukraińskie przedsiębiorstwa w warunkach zrównoważonego rozwoju. Na Ukrainie bodźce do rozwoju CSR wywodzą się raczej z sektora przedsiębiorstw niż ze społeczeństwa. Odpowiedzialne społecznie inicjatywy są podejmowane przez filie międzynarodowych korporacji, publikacja raportów z działalności CSR jest standardowym wymogiem dla przedsiębiorstw, które planują wejść na giełdę.

W opracowaniu analizom poddano udział ukraińskich przedsiębiorstw w inicjatywach z zakresu zrównoważonego rozwoju (UN Global Compact) oraz w ocenach i konkursach dotyczących praktyk CSR (konkurs prowadzony przez organizację “The Development of CSR”), jak również sporządzania raportów o charakterze niefinansowym. Zgodnie z wynikami konkursu przeprowadzonego przez organizację “The Development of CSR” w 2013 r., wśród najwyższej ocenionych sprawozdań o charakterze niefinansowym znalazły się raporty takich firm, jak: DTEK (GRI), SCM (GRI), Banku Platinum (GRI), Galnaftogaz (GRI), Interpipe (COP). W opracowaniu przedstawiono także przykłady odpowiedzialnych działań biznesowych firm Metinvest oraz filii wiodących korporacji międzynarodowych (Nestlé, Sun InBev, L’Oréal, Tetra Pak, Henkel).

Przeprowadzone analizy prowadzą do wniosku, że praktyki CSR podejmowane przez przedsiębiorstwa działające na Ukrainie są najczęściej fragmentaryczne i niesystematyczne. Popyt ukraińskiego społeczeństwa na odpowiedzialne inicjatywy jest stosunkowo niski. W związku z tym wzrost kultury oraz świadomości mieszkańców Ukrainy na temat społecznych aspektów życia może stać się bodźcem do przekształcenia niesystematycznych działań CSR ukraińskich przedsiębiorstw w ważną część ich biznesowej strategii.

Słowa kluczowe: społeczna odpowiedzialność biznesu (CSR), rozwój zrównoważony, odpowiedzialne praktyki, ukraińskie przedsiębiorstwa

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