



# **Interaction with Local Communities as an Element of Social and Environmental Responsibility of Oil and Mining Companies in Russia**

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"Sustainable development of the territorial economy through networking of small cities and district centers")

# Agenda

- ▶ **Lomonosov MSU Research Center for Network Economy**
- ▶ **Natural resources and regional development in Russia**
- ▶ **Environmental responsibility ratings of oil, gas and mining companies**
- ▶ **Findings and results of the study**

# Lomonosov MSU Research Center for Network Economy

- ▶ Network forms of business organization
- ▶ Social networks in development and promoting tourism products/destinations
- ▶ Relationship marketing and place branding - emerging markets and cross cultural studies
- ▶ Sustainable regional economic development based on networking of small cities and district centers (supported by RSF, project 17-18-01324)



## Sustainable regional economic development based on networking of small cities and district centers

### The main goal:

- ▶ to develop a methodology for using network coordination mechanism that will help small towns and rural regions to gain sustainability and to develop successfully (that is, to find a way to facilitate combining their scarce resources, taking into account their history, specific features, and hidden competitive advantages)





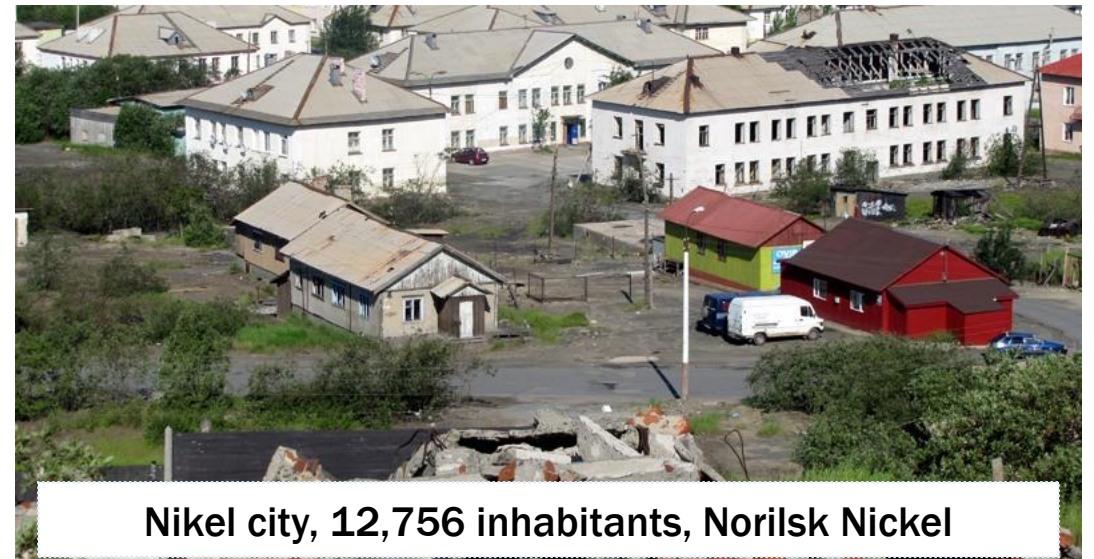
# Russian economic development: resources matter

- ▶ Russia is the second largest producer of natural gas globally and the third largest producer of liquid hydrocarbons
- ▶ The share of oil and mining industries in GRP exceeded 60 percent for several Russia's regions including Sakhalin Oblast, Nenets, Yamalo-Nenets and Khanty-Mansi Autonomous Okrugs
- ▶ None of the Russian companies was evaluated as "Sample of the best-in-class companies from the mining, O&G industries" in the global study (Raufflet, Barin Cruz, Bres, 2014)



# Natural resources and small cities

- ▶ Key production capacities and business units of the largest Russian oil and mining companies are often located in small cities
- ▶ Economic development, social welfare and quality of life in these cities is largely determined by the level of social and environmental responsibility of “city-forming” enterprises and their parent companies



# The aim of the research

- ▶ Our study aims to **systematize key features of interaction between oil and mining companies and small towns' communities** within the framework of corporate social and environmental responsibility (CSR) programs.
- ▶ The study is based on unique data collected during the preparation of two annual projects: the environmental responsibility rating of oil and gas companies (2014-present) and the environmental responsibility rating of mining companies (2017-present)



Rating Organizers:



Rating Partners:





# Environmental responsibility ratings: data

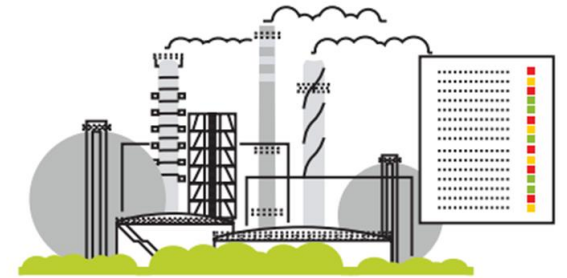
- ▶ Ratings are compiled on the initiative of WWF Russia using authors' methodology (Shvarts, Pakhalov, Knizhnikov, 2016)
- ▶ The sample includes 22 largest oil and gas and 33 leading mining companies operating in Russia
- ▶ The rating criteria focus on topics which are usually underestimated by the industry's legal requirements and Russian corporate standards such as biodiversity protection, **stakeholder engagement**, renewable energy





# Environmental responsibility ratings: methodology

- ▶ Based on the analysis of public sources (sustainable reports etc.) each company is assigned color flags for each of criteria — Red, Yellow or Green
- ▶ At the next stage, points are assigned for every criterion. Red flag counts as 0 points, Yellow as 1 point, and Green as 2 points
- ▶ The final Rating is then calculated for each company by averaging three values assigned in the previous stages
- ▶ **Interaction of companies with local communities** is investigated based on the **content analysis** of various sources including corporate sustainability reports, corporate profiles and media publications



# Literature review

- ▶ Ratings and scorecards proved to be an effective tool to increase transparency and improve production and operations standards and practices for a range of resources and commodities (Ali, Frynas & Mahmood, 2017)
- ▶ Ratings can be effectively used to increase transparency and improve social responsibility in a wider range of contexts and sectors, including sectors not widely exposed to consumer pressure than previously believed (Shvarts, Pakhalov, Knizhnikov & Ametistova, 2016)
- ▶ Wider proliferation and application of international voluntary environmental / social policy standards and ratings in emerging economies could potentially create disincentives for those Foreign Direct Investments (FDIs) which seek to invest in “pollution havens” (Copeland & Taylor, 2004)

# “Event-style” social responsibility

- ▶ Financial and organizational support for cultural and educational events in small towns (e.g. "city days" or national holidays of indigenous peoples) is the most common type of CSR projects of Russian oil and mining companies
- ▶ These projects do not involve high financial costs but provide a good public relations effect





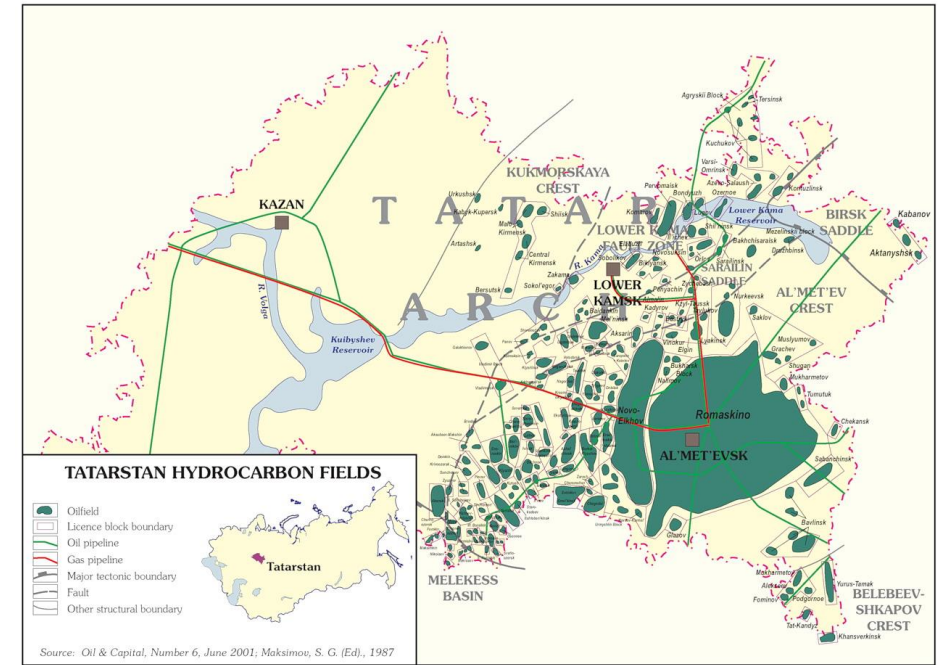
# No chance to influence

- ▶ Russian oil and mining companies avoid CSR projects that assume involvement of small cities' communities in corporate decision making process (e.g. environmental councils with participation of local residents involved in public evaluation of investment projects)
- ▶ Information on public inquiries is usually hidden and the comments of active local community members remain unaccounted



# Taking care of the neighbor

- ▶ Level of transparency and responsibility in the relationship with local communities is higher for companies whose head office is located in the region of production activity (e.g. Surgutneftegaz, Tatneft, Uralkali)
- ▶ Possible explanations include closer connection between shareholders of companies and local residents and the ability of regional authorities to influence companies' decisions





# No comments

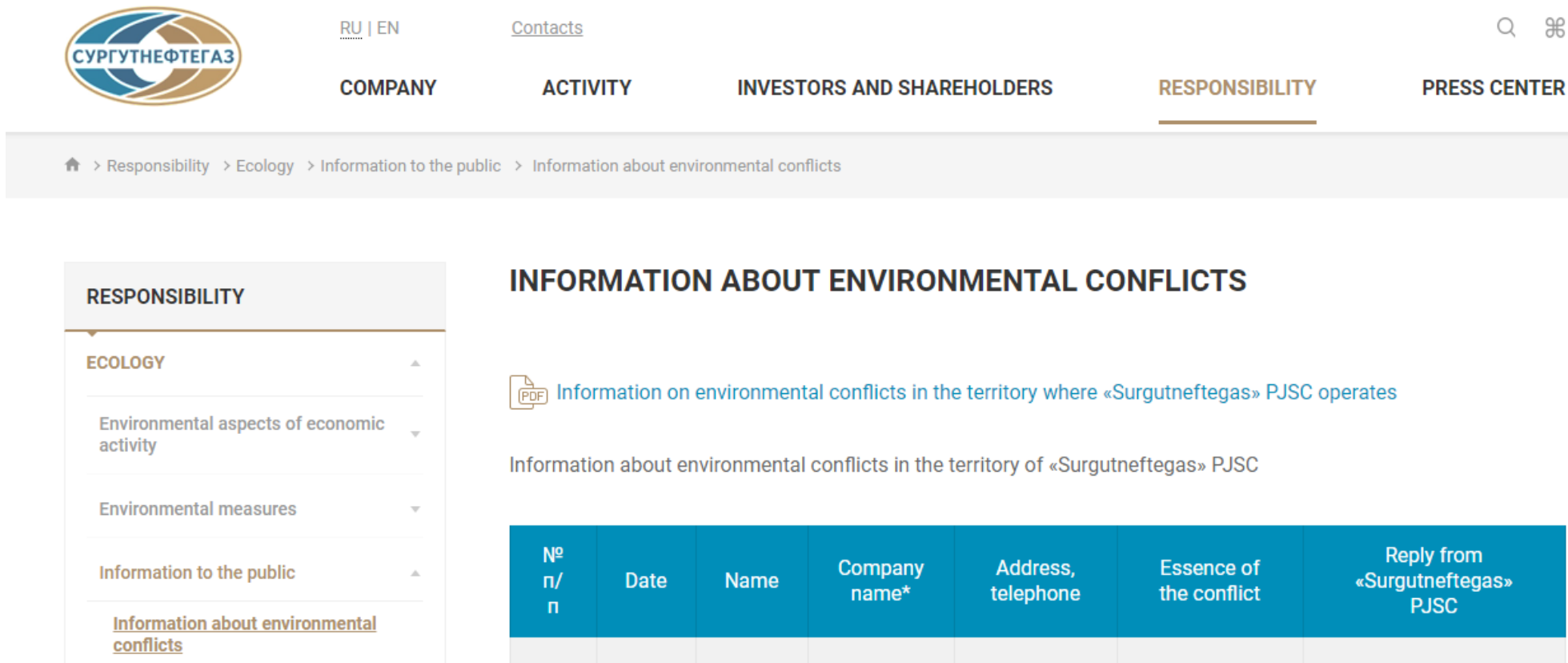
- ▶ Social and environmental conflicts with local communities are officially commented by companies only in cases when information on these situations falls into the field of view of federal media
- ▶ Conflicts covered by local media are ignored by companies and not included in non-financial reporting
- ▶ Need for regular monitoring of local media (launched by WWF in 2017)





# Best practices: Surgutneftegas

- ▶ Surgutneftegas is the only oil and gas company that discloses on the official website information even about minor conflicts with local communities (Information is available in Russian and English)

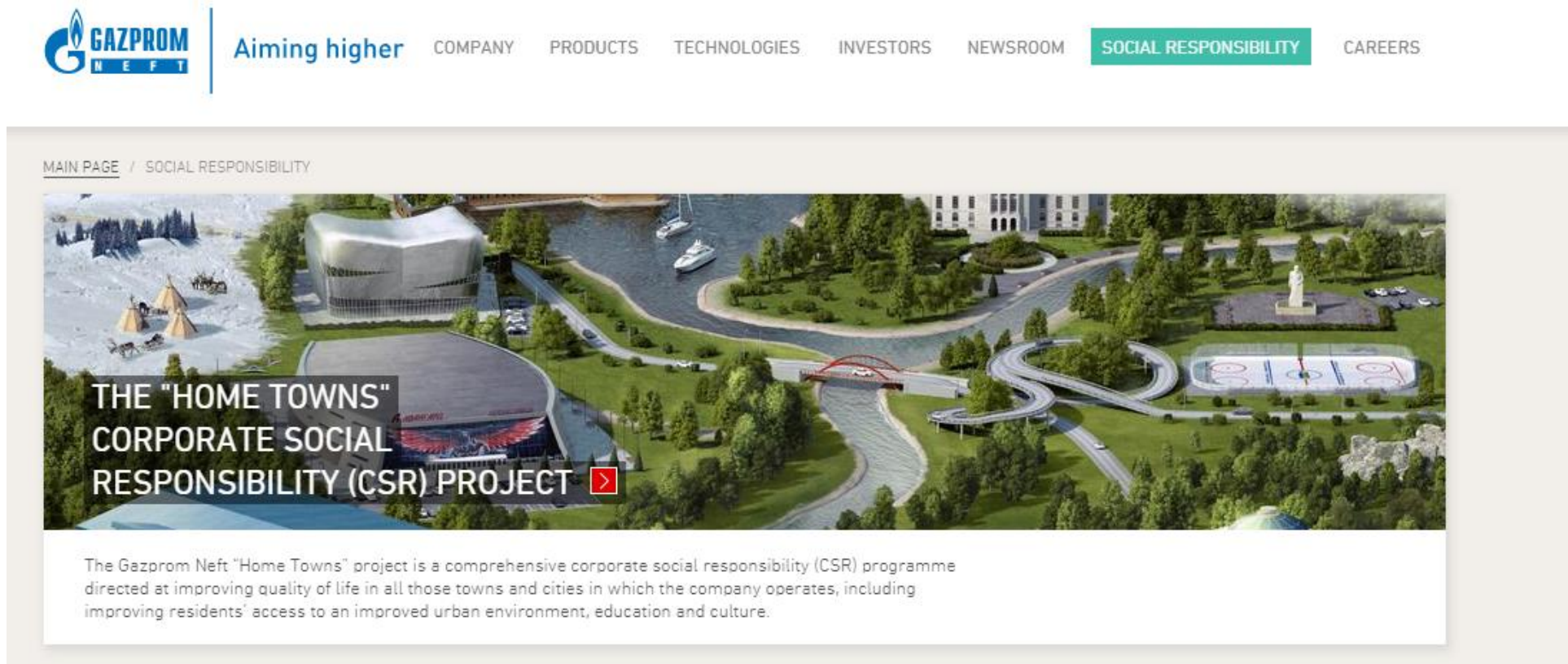


The screenshot displays the Surgutneftegas website interface. At the top, the company logo is on the left, and navigation links for 'RU | EN', 'Contacts', and a search icon are on the right. Below this is a horizontal menu with 'COMPANY', 'ACTIVITY', 'INVESTORS AND SHAREHOLDERS', 'RESPONSIBILITY' (highlighted with an underline), and 'PRESS CENTER'. A breadcrumb trail below the menu reads: 'Home > Responsibility > Ecology > Information to the public > Information about environmental conflicts'. On the left side, a sidebar under the 'RESPONSIBILITY' header lists 'ECOLOGY' with a dropdown arrow, and under it, 'Environmental aspects of economic activity', 'Environmental measures', and 'Information to the public'. The 'Information to the public' item is expanded, showing a link to 'Information about environmental conflicts'. The main content area is titled 'INFORMATION ABOUT ENVIRONMENTAL CONFLICTS' and features a PDF icon with the text 'Information on environmental conflicts in the territory where «Surgutneftegas» PJSC operates'. Below this, it states 'Information about environmental conflicts in the territory of «Surgutneftegas» PJSC' and presents a table with the following structure:

Nº n/ n	Date	Name	Company name*	Address, telephone	Essence of the conflict	Reply from «Surgutneftegas» PJSC

# Best practices: Gazprom Neft

- ▶ The Gazprom Neft “Home Towns” project is a key corporate social responsibility program directed at improving quality of life in all towns and cities where the company operates, including residents’ access to an improved urban environment, education and culture



# Best practices: Salym Petroleum Development

- ▶ The “SALYM LAND” project is aimed not only at improving the urban environment for Salym residents, but also on promoting information about the city, increasing its tourist and investment attractiveness





# Conclusions

- ▶ Interaction with local communities is an important element of CSR only for few Russian oil, gas and mining companies in Russia
- ▶ Most of Russian oil, gas and mining companies prefer to organize separate CSR-projects instead of creating an integrated program of interaction with local communities
- ▶ Local communities do not have any real impact on corporate decisions made, and conflicts with local communities are rarely covered by companies and federal media

# Questions?

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