



## CSR TRENDS IN THE METALLURGICAL INDUSTRY: NONFINANCIAL REPORTING CASE STUDY

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In this paper we conduct the comparative analysis of Corporate Social Responsibility (CSR) reporting by Russian and foreign companies based on GRI-G4 standards. We found that Rio Tinto Group is the leading one in terms of Economic and Environmental Performance Indicators. We saw substantial effort of Norilsk Nickel to be sustainable by spending much more money than Rio Tinto on environmental protection projects.

*CSR, GRI, non-financial report, performance indicators, metallurgy, Russia*

### Introduction

The industrial revolution and US Civil War created conditions for the creation of many corporations across the US and Europe. This phenomenon was also accelerated by the law enforcement, which allowed entrepreneurs and business organizations to acquire different varieties of legal forms. Since then the number of corporations exploded. When these corporations satisfied local consumers' needs, they started to go global. The business firms going global was motivated by two main factors. The first one is to find new outlet for growth and thus trying to increase their market share and competitive edge. The second motivation was to have access to resources with lower cost in comparison with the home country of parent companies realizing a Foreign Direct Investment (FDI). These foreign resources include cheap labor with deficient regulations in many developing world countries.

This globalization has led to the production of a wide range of products consumed internationally. It follows that increase in production volumes implies larger amounts of waste products, which endanger our environment. The concept of sustainable production stemmed from these circumstances. Nowadays we have many issues about ecology and sustainable development and its correlation with industrial models around the globe [1]. For instance, the sportswear company Nike got massive criticism about sweatshop conditions at its overseas suppliers. Another well-known case is the conflict between Shell and Greenpeace, when Shell decided to dump the Brent Spar oil storage platform in the North-East Atlantic. A more recent illustration, where the interest for ethical standards and CSR saw an increase is the British Petroleum Deepwater Horizon oil catastrophe in the Gulf of Mexico in 2010. Therefore, there are many organizations, which have elaborated CSR report for companies in order to facilitate the comparability of corporations' report around the world. Some of these organizations are as listed below:

- OECD Guidelines for Multinational Enterprises, first adopted in 1976;
- UN Global Compact Principles (UNGC), formed in 1999;
- UN Guiding Principles on Business and Human Rights and

Global Reporting Initiatives (1-4) released in June 2000. G4 guidelines are transitioning into GRI Standards and will come into effect after 1 July 2018.

Global Reporting Initiatives (GRI) - voluntary and are used by organizations in reporting on the economic, environmental, and social dimensions of their activities. This research will be focused on GRI standards reporting by multinational enterprises in the metallurgical industry. The sample cases include Rio Tinto Group, Norilsk Nickel and Metalloinvest. The first question, which occurs here consist of knowing what GRI standards are and what are their impact on the corporate world? The second question is what is the structure of GRI standards?

### What companies are reporting on CSR?

The fact remains that, despite of the current critics, a rapidly growing number of companies in the world practices some form of CSR. At last count, more than 3,500 companies were part of the Global Reporting Initiative, and had issued more than eight thousand environmental and social sustainability reports [2]. This number was less than 1400 in 2010. In a 2008 Economist online survey of 1,192 global executives, an estimated 55 percent reported that their companies gave high priority to corporate responsibility. The number was projected to increase to 70 percent by 2010, demonstrating that a rapidly increasing number of companies across the globe are committed to CSR practice, and many more are increasingly entering the fray [3]. For instance, in the Russian Federation the number of non-financial reports has been increasing dramatically since 2009. There is a positive dynamics of those reports in Russia from 2009 to 2015 [4]. Companies are reporting different types of reports in the Russian metallurgical industry (see Table 1). From the same industry, Jones et al. (2007) have studied two major mining corporations and the practical response to their CSR policies. They concluded that the corporations are more committed to CSR at the level of disclosure and commitment to general principles, rather than at the deeper level of actual workplace practice. There is a convergence of ideas, which argue that extractive industries are in the forefront of practicing CSR. Industries that utilize natural resources are more inclined to have a formal written code of ethics and environmental policies, a social responsibility and practices and provide social and environmental disclosure [5].

Table 1 – Number and type of reports in the Russian Metallurgical Industry, March 2015 [4]

Number of companies	17
Integrated reports	5
Reports on Sustainable Development	22
Social reports	40
Ecological Reports	0
TOTAL	67

The fundamental problem with CSR practice is that companies usually don't have a CSR strategy, but rather numerous disparate CSR programs and initiatives [6]. This usually occurs when the company's CSR activities are not strongly tied to the company's core business.

### Methodology and Data

In order to conduct the analysis of the non-financial reports according to GRI-G4 standards, we use a binary variable to assess each company. As there are one hundred indicators, so this means that the maximum total sum of points to be obtained by each company is one hundred. These indicators fall into three main categories. There are Economic Performance Indicators, which includes 17 indicators. The second category is Environmental Performance Indicators, which includes 32 indicators. The third and last category is Social Performance Indicators and includes 50 indicators. The binary function is equal to one, when we meet specific indicator in the non-financial report of a company. Otherwise, the binary function is equal to zero. After we have affected a certain value to the binary function for each indicator, we add up the number of points accumulated by each company in each category. This sum represents the score of a certain company in each of those three categories (see Fig. 1). Analyzed data are taken from the official website of Global Reporting Initiatives, where each company in our sample had its 2015 non-financial report. Data about CSR spending are taken from companies' annual report for some and for others from their CSR report for the year ended at 31 December 2016.

### Description of studied companies in mining & metals industry

According to the KPMG survey (Metals & Mining in Russia, 2016), Metalloinvest is the largest iron ore producer in Russia and controls around 40% of the total market. Whereas Rio Tinto is in the Metals & Mining Sustainability Leaders group according to 2017 Dow Jones Sustainability Index. The main information about the studied companies is resumed in the Table 2.

Table 2 – Description of studied companies

	Rio Tinto Group	Norilsk Nickel	Metalloinvest
Employees (ppl)	51 000	82 006	48 111
Ranking (World / Russia)	One of leading international mining group	First nickel and palladium producer in the world	Largest iron ore producer in Russia and CIS
Revenue (million USD)	33 781	8 252	4 261
Operating profit (million USD)	6 795 (EBIT)	3 899 (EBITDA)	1 258 (EBITDA)
Net Debt (million USD)	9 587	4 551	4 150

### Results

Results show that in terms of Economic Performance Indicators Rio Tinto occupies the leading position while the two others (Metalloinvest & Norilsk Nickel) have almost the same score in this category. Talking about Environmental Performance Indicators, we observe a slight change in the picture. However, Rio Tinto has the leading position. Rio Tinto and Norilsk Nickel have the highest score. While Metalloinvest occupies the bottom. As for Social Performance Indicators, Rio Tinto is surpassed by Norilsk Nickel, which has a score of 32 out of 50 (64%). This aligns with the findings in 2007, when Norilsk Nickel has been called a social-effective company. In this category, Rio Tinto has the score of 50%. To sum up Rio Tinto leads in two categories (Economic and Environmental Performance Indicators). Norilsk Nickel leads the category of Social Performance Indicators. Metalloinvest has to improve its operational strategy in order to meet the GRI-G4 standards.

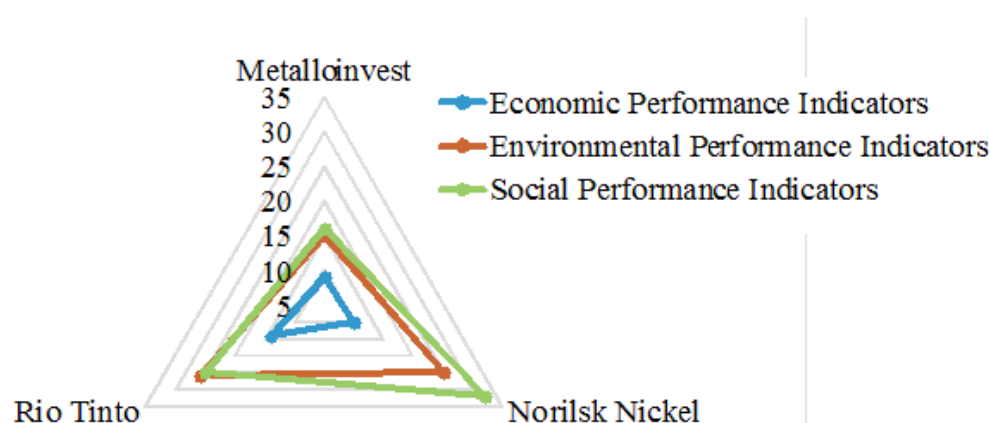


Figure 1 – Total tridimensional score of companies' CSR report

### Companies' CSR spending in 2016

In terms of CSR spending, we see that all studied companies give a suitable attention to CSR, and Rio Tinto is one of the leading company in the metals & mining industry in terms of sustainability even though it has spent less money on CSR than Norilsk Nickel in 2016. It is worth mentioning that Norilsk Nickel spent almost 624 million USD on CSR activities during the 2016 Financial Year. Companies' CSR spending splits into three main categories. The first category is

investment in employees' training, occupational health and safety, and social support programs for retirees. The second is environmental protection expenditures and investments. The third is community investments and charity. In order to know how the CSR budget is distributed in these three categories, look in the detailed table below (Table 3). So, what are the projects realized by these three companies through their 2016 CSR budget?

**RIO TINTO GROUP.** In 2016, Rio Tinto contributed to 1,294 programs covering health, education, environmental protection, housing, agricultural and business development areas. In total, it spent USD 166 million on community programs. Rio Tinto faced ongoing issues with local communities in regions where it operates. The structure of its CSR spending is as follows in the figure 2.

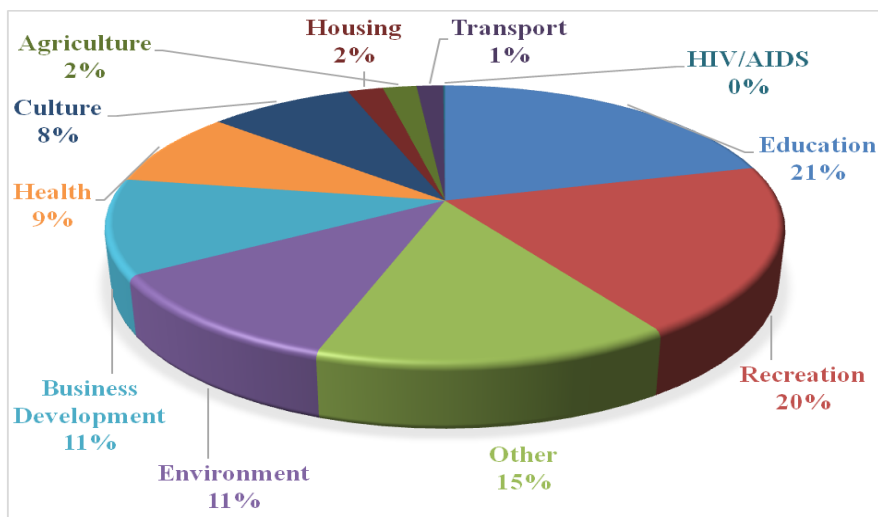


Figure 2 – Structure of projects covered by Rio Tinto Group CSR budget in 2016

Among those issues, we can cite Mount Thorley Warkworth coal mine, Resolution Copper project and Canadian aluminium operations. In addition, Richards Bay Minerals operation faced protests and unrest from a small number of community groups seeking greater employment and procurement opportunities. In Gladstone Rio Tinto launched their “Here for business” program to help generate new business and employment opportunities following an economic downturn in the region. The program offers business coaching and interest-free loans to new businesses and to existing businesses seeking to expand into new markets.

**METALLOINVEST.** Metalloinvest spent USD 96.91 million on Environmental Protection (EP) activities during the year 2016. Here are the specific activities realized:

- Interaction with government authorities on issues relating to improving EP laws;
- Organizing environmental trainings for staff, suppliers, and contractors;
- Periodic submissions to government authorities and industry associations;
- Monitoring compliance with EP requirements by suppliers and contractors and
- Holding public discussions and collecting feedback from local communities on environmental issues.

Metalloinvest realized two key events aimed to upgrade equipment to reduce emissions. These events are:

- Completion of an industrial waste landfill at Ural Steel and
- A refurbishment project of a purifying waste gas system at Oskol Electrometallurgical Plant (OEMK), JSC.

The Company’s social support activities address the following focus areas: Medical support; Health improvement and recreation for employees and their children; Support for parents and families; Financial assistance for employees and their families; Incentive payments (non-production); Hot meals for workers; Transport services for employees to and from the place of work; Support for

pensioners (retired employees); Organizing sports and cultural events; Maintenance of social facilities and Other social programs.

**NORILSK NICKEL GROUP.** In terms of Occupational Health and Safety (OHS) some of the results were: Authorized representatives of trade unions and staff for health and safety (1,186 employees) have been elected to participate in preventive health and safety activities across the production units of the Group's companies. In 2016, they took part in over 28,000 audits and submitted around 7,800 health and safety improvement proposals. For staff training in health and safety, around 5,300 employees were trained on special health and safety onboarding and adaptation courses for new employees and employees with a track record of up to three year. Furthermore, Norilsk Nickel conducts socio-cultural programs like:

1) FabLab, an innovation and creativity laboratory

The FabLab laboratories host training courses and workshops for schoolchildren, university students, IT professionals, engineers and other keen participants. In 2016, the Monchegorsk laboratory hosted a foresight session with the view to further expanding the FabLab project and to defining avenues for development, including establishment of an autonomous non-profit organization and involvement of local communities in the laboratory's efforts.

2) 6th All-Russian Science Festival in Krasnoyarsk

In 2016, over 40 R&D organizations, universities, innovation centers, plants and enterprises of the Krasnoyarsk Territory and other Russian regions took part to showcase their most advanced products. The Company initiated and sponsored participation of a delegation representing supplementary education facilities for children and cultural institutions from Norilsk and Dudinka that focus predominantly on R&D projects.

3) Federal cultural projects

In 2016, Nornickel acted as a general partner of the Golden Mask in the Cinema project. Golden Mask in the Cinema is a unique nationwide theatre project making stage productions of the best Russian theatres available to a broader audience.

Table 3 – Corporate Social Responsibility spending distribution in USD million and as a percentage of company's gross revenue

	Company	Investment in employees' training and social support programmes for retirees	Environmental protection expenditures and Investments	Community investments and charity	Total CSR spendings (USD million), share of CSR spending
CSR expenditures by type (USD million)	Norilsk Nickel	129,74	383,58	110,45	623,77
	Metalloinvest	39,34	96,91	0,78	137,02
	Rio Tinto	N/A	18,59	147,41	166,00
Share of CSR spending as a percentage of gross revenue in 2016	Norilsk Nickel	2%	5%	1%	8%
	Metalloinvest	1%	2%	0%	3%
	Rio Tinto	N/A	0,06%	0,44%	0,5%

### Conclusion

In the light of what precedes, we see that Rio Tinto Group occupies the leading position in terms of Economic Performance Indicators in the 2015 non-financial reporting based on GRI-G4 standards. In terms of Environmental Performance Indicators, Rio Tinto and Norilsk Nickel have almost the same score. It is a good sign that Norilsk Nickel is spending tremendous amount of money in order to be environmentally responsible. In 2016 Norilsk Nickel spent 383.58 USD million (5% of its gross revenue) on environmental protection and investments. Norilsk Nickel leads the

category of Social Performance Indicators. As for Metalloinvest, it has to improve its non-financial report based on GRI- standards.

Among the studied companies, Rio Tinto is the one, which is the leading company in terms of sustainability (2017 DJSI - Dow Jones Sustainability Index). This can be explained by the fact that Rio Tinto Group has most of its assets in Australia and North America. In these countries, they have started following international standards on sustainability long time ago. Therefore, Rio Tinto adapted once operating in each region worldwide for 135 years now. Nevertheless, we have seen that Russian multinationals have been undertaking substantial efforts in the sustainability of their operations and adaptive local communities programs for the regional development. All studied companies are among the global leaders in some specific field of their activities. For instance, Rio Tinto is one of the leading company in iron ore production and the aluminium industry. Norilsk Nickel Group is not only the second largest nickel producer (12% of global output), but also occupies the first place in palladium production with 40% of global output. As for Metalloinvest, it is the global leader in commercial hot-briquetted iron production and the second largest pellet manufacturer in the world. It follows that world big leading metallurgical corporations are more embedded into corporate social responsibility. They are being engaged with all their stakeholders as suggested by various international organizations promoting and issuing standards for sustainable development.

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