TOWARDS A MODEL OF MUTUAL BENEFIT:
BUSINESS AND SOCIETY IN THE CONTEXT OF THE FORMER UNION OF
SOVIET SOCIALIST REPUBLICS

by

NADEZHDA T. ZHEXEMBAYEVA

Submitted in partial fulfillment of the requirements
For the degree of Doctor of Philosophy

Dissertation Adviser: Dr. Ronald E. Fry

Department of Organizational Behavior
CASE WESTERN RESERVE UNIVERSITY

May 2008
We hereby approve the thesis/dissertation of

Nadezhda T. Zhembayeva

Ph.D.
candidate for the ___________________________ degree *.

Ronald E. Fry
(signed)_______________________________________________
(chair of the committee)

David L. Cooperrider

Sandy K. Piderit

Peter Whitehouse

Sep 5, 2007
(date) _______________________

*We also certify that written approval has been obtained for any proprietary material contained therein.
# Table of Contents

Table of Contents 3

List of Tables 5

List of Exhibits 6

Acknowledgements 7

Abstract 10

Chapter 1 12
Setting the Context
Aiming Higher: Corporate Social Responsibility in the Emergent Economies
And Even Higher: Business as an Agent of World Benefit in the Former USSR
From General to Specific: What I am after
The Best Possible World: Mutual Benefit
Corporate Social Responsibility, Eurasia, and Advancement of Society: My Research Questions

Chapter 2 35
The Way I Got There: The Process
Sampling and Data Collection
Data Analysis

Chapter 3 49
Case Study A: “Kus Zholy”: The New Face of Kazakh Social Engagement
Kazkommertsbank: Innovations for the New Nation
The How-To: Processes, Policies, and Procedures
The ‘So What’: Impacts of Kus Zholy’s First Two Years of Operation
Lessons Learned
# Table of Contents, continued

**Chapter 4**

Case Study B: Complex Socio-Economic Development in the Regions of SUAL Group Presence

Inspiration: The Story Behind the Story

Innovation: New Horizons in Cross-Boundary Partnerships

Impact: Mutual Benefits for Business and Society

Lessons Learned

---

**Chapter 5**

Case Study C: Troika Dialog Investment Risks Rating

Troika Dialog: The Unlikely Hero

Inspiration: Success Redefined

Innovation: Social Change Through Commercial Product

Impact: Leverage Small Solution for Big Change

Lessons Learned

---

**Chapter 6**

In Search of Theory

The Markers: Few Easy Rules for Successful Innovation for Business and Society

---

**Chapter 7**

The Mutual Benefit State of Mind: A Few Propositions

---

**Chapter 8**

Towards a Model of Mutual Benefit

The What: My Real Discoveries

The How: A Few Remarks

Limitations

Conclusions
List of Tables

Table 1 Project nominees .............................................................................................................................. 38
Table 2 Case Study A .................................................................................................................................... 43
Table 3 Case Study B .................................................................................................................................... 44
Table 4 Case Study C .................................................................................................................................... 45
Table 5 Examples of Kazkommertsbank’s Philanthropic Programs, 1992-2003 .......................................... 52
Table 6 Complex Socio-Economic Development for Territories of SUAL Holding Presence: Program Components ......................................................................................................................................... 86
Table 7 Innovations for New Nations: Case Studies in Review ................................................................. 132
Table 8 Markers and Rules of Successful Innovation for Business and Society ......................................... 135
Table 9 Rules for Successful Business Innovation for World Benefit ......................................................... 138
**List of Exhibits**

- Exhibit 1 Union of Soviet Socialist Republic: Brief Overview ................................................................. 18
- Exhibit 2 Mutual benefit in the current business-in-society frameworks ...................................................... 28
- Exhibit 3 Kus Zholy as a Manifestation of Kazkommertsbank’s New Business Paradigm ...................... 54
- Exhibit 4 Sign Language Dictionary: Partnership in Action ........................................................................ 56
- Exhibit 5 The How-To of Anti-Corruption: Implementing the United Nations Global Compact ............. 66
- Exhibit 6 Business Impact Measurement: Excerpt from a Standard Report Form Tracking "Reputational Dividends" Accrued as a Result of Kus Zholy Activity ................................................................. 68
- Exhibit 7 ........................................................................................................................................................ 93
- Exhibit 8 2001 "The Corporate Governance initiative of the World Economic Forum: Changing Corporate Governance in Russia" Report ......................................................................................... 113
- Exhibit 9 The Mutual Benefit Model for Business and Society in the Context of the Former USSR ........ 166
Acknowledgements

Those who danced were thought to be quite insane by those who could not hear the music.

Angela Monet

Saying thanks, and to a certain degree, good-byes, is always a chance to stand back and look at the long road that brought me to this point. What was it all about?

This work is a tribute to my home – to the country that does not exist, but lives on in the thoughts and deeds of millions of post-Soviets sprinkled around the globe. It is a tribute to its beauty and glory, the beauty that goes beyond its nature and celebrated arts into the depth of human soul. So, my first thanks go to my the millions who continue to channel love, justice, and peace through their private personal lives, and to the few who choose to bring those simple values to the forefront of their public professional persona. To the amazing, inspiring, and courageous teams of Kazkommertsbank, SUAL-Group, and Troika Dialog, I say thank you for being the few who continue to give us hope.

This work is also a tribute to my intellectual home – the Department of Organizational Behavior at Case Western Reserve University’s Weatherhead School of Management, and its growing off-spring, the Center for Business as an Agent of World Benefit (BAWB). For every conversation, every class, every reading, every conflict, and every event, I am forever grateful – and proud – to be a part of the department’s history. To Ron Fry, my mentor, dissertation committee chair, and dear colleague, I owe thanks for endless patience, amazing skill, gentle pushes, vast intellect, and deep kindness – thank you for being the living example of what it means to be a true scholar. To David
Cooperrider, my professional godfather, I owe thanks for persistent boosts to my hopes and visions of what this world might be – thank you for not letting me settle for anything less. To Sandy Piderit and Peter Whitehouse, the dedicated co-creators of this project, I owe thanks for the sharpness of thought and clarity of understanding around this messy work – thank you for sharing this path with me. To my BAWB crowd, I owe thanks for continuing to help me discover the meaning and calling of my life – thank you, Ante Glavas, Judy Rodgers, Chris Laszlo, Lindsey Godwin, and Mary Grace Neville for hours of late conversations and morning projects, for laughter, truthfulness, and sharing your heart. To my Ph.D. cohort of 2001, I owe the very survival through the foundational years of the doctorate journey – thank you, Deniz Kirazci, Tim Ewing, Bibi Potts, Sarah Walleck, Greer Jordan, Guy Hutt and Verena Murphy, for continuing to keep my feet on the ground. Thank you, Case ORBH!

I also cannot leave out my deepest appreciation of the close group of friends, now living out their truths in Cleveland, New York, London, Moscow, and Almaty, who continue to remind me that “Born in the USSR” is not so much about history and geography, and very much about philosophy and state of being. Thank you Yulia Dubrovsky, Alibek Belyalov, Svetlana Zakharchenko, Yulia Oleinik, Olga Finogenova, Irina Fateeva, Sergey Vecher, Evgeniy Verhogyad, Olga Guzman, Michael Uchitel, Alexei Mitin, Ekaterina Salavei, and Viktor Kan for being in my life.

And then comes the traditionally last group to thank – and the first to see every word on this page - my family. To my dad, who chose to stay alive amidst millions of dead souls, and my mom, who embodies the magic of community, I owe my life – and my love – forever. To my sister Tanya, who keeps asking me tough questions, and my brother
Marat, who keeps showing me the simplicity of this world, I owe laughter, real conversations, and good beer – I will come over soon, I promise. To my husband Vladimir, who I met amidst and dragged along this journey, and who continues to show me every day what true meaningful life looks like, I owe more than I can repay in this lifetime, so it better be a long ride! And to my 3-and-a-half daughter Lila, who is pretty upset with my attachment to this screen, I owe the very knowledge of what joy, strength and dignity of human spirit is, I love you my little star.
Towards A Model Of Mutual Benefit:

Business And Society In The Context Of The Former Union Of Soviet Socialist Republics

Abstract

by

NADEZHDA T. ZHEXEMBAYEVA

Words create worlds, suggests common wisdom, summarizing eloquently decades of social constructionist thought from Berger & Luckmann (1967) to Gergen (1999) and beyond. In the domain of business and society relationship, the words have offered a wide array of worlds to choose from.

From the first timid attempts of Bowen (1953) to the mature efforts of Waddock (2004), Corporate Social Responsibility, along with Corporate Social Performance (Carroll, 1979), Corporate Citizenship (Waddock, 2004), and stakeholder theory (Freeman, 1984) have been offering the reality built on obligation, charity, and service. The mainstream shareholder value approach, manifested most notably by Friedman (1962, 1970), has been responding to the call for responsibility and obligation with strong opposition; profit maximization is the cornerstone of this reality.

While academia battles over the words to model ideal relationship between business and the rest of society, the ‘common folk’ casts its vote by using – or dropping – words from its day-to-day conversations. Across centuries and continents, people have made up words to define the place of trade and profit in the larger schema of life. The ancient Swidish term for business is narings liv, which means ‘nourishment for live’ (Albion,
2000). Russian word *delo*, traditionally used for business, means ‘purpose’ or ‘calling’ (Gramota.Ru, 2007). The English word *business* itself derives its meaning from *bisig*, which means ‘careful’, ‘anxious’, ‘busy’, and ‘occupied’ (American Heritage Dictionary, 2007; Online Etymology Dictionary, 2007). From purpose and nourishment to busyness and anxiety, isn’t it a surprising world we have created?

I have set forth this inquiry beyond the limitation of the *world that has been created* to the horizon of the *world that could be*, framing this inquiry by a simple question: what are the factors and forces that allow for successful integration of business impact and world benefit in the context of the former USSR?

The data, which flowed in response to the question, suggested a number of core elements allowing for deep synergy between business and the rest of society; and a blue-print for a new model of business-in-society harmony offered a glimpse of a new world possible.
CHAPTER 1

Setting the Context

In the recent years “corporate social responsibility” and its twin sister, “sustainability”, have become the hip “it” girls in business and media. An ever expanding list of articles and books, conferences and forums call diverse stakeholder groups, such as consumers, shareholders, and government, to take part in a new emergent paradigm for business mission and conduct. While Corporate Social Responsibility (CSR) is defined as “the degree of (ir)responsibility manifested in a company’s strategies and operating practices as they impact stakeholders and the natural environment day to day” (Waddock, 2004, p.10), and sustainability is defined as “the ability to meet today’s global economic, environmental, and social needs without compromising the opportunity for future generations to meet their needs” (World Commission on Environment and Development, 1987, p. 43), both concepts are used interchangeably, putting forth a united invitation. Business, “the motor of our society”, as Willis Harmon puts it, is called “to be the new creative force on the planet, a force which could contribute to the well-being of many.”

The new paradigm is being built on a sound business case. The research community confirms that a company’s approach to environmental, social, and governance issues is often a good indicator of overall risk levels and general management quality — which are both strong determinants of companies’ long-term success (Who Cares Wins, 2004). Furthermore, a positive relationship exists between sustainability factors (e.g., shareholder engagement, environmental process improvement, or local community development), and such business success factors as revenue growth, cost savings, and brand value (Buried Treasure, 2001; Developing Value, 2002). The finance and
investment community is working on new measures and tools for assessing business performance in the social and environmental arena (see, for example, the Goldman Sachs Energy Environmental and Social Index and the Innovest’s EcoValue Audit). Members of the business community (as many as 81% Global 500 executives) rate corporate social responsibility issues among the top ten forces for business value, asserting that 50 to 90% of a firm’s market value can be attributed to intangibles (Global Environmental Management Initiative, 2004). Excitement and innovation fill the air.

In the face of such an upbeat sketch of CSR advancement, criticism and skepticism stand as harsh reminders of a road ahead. The survey of global leaders in CSR published January 13, 2005 by Business for Social Responsibility and the Dutch Ministry of Economic Affairs portrays mixed feelings of the CSR field. “Across all sectors, organizational positions and countries, the level of general CSR integration into core business functions is seen as lagging…Those managers with direct CSR responsibilities are the most skeptical group vis-à-vis their organizational peers regarding the level of CSR integration and the competitive advantages that CSR produces” (p.1). Extensive survey by Economist published a week later, January 20, 2005, paints even a darker picture: CSR as a concept is perceived as a false or even fraudulent endeavor (Crook, 2005).

So, what is in this contrast?

As I sit down for my weekly ritual glance over top CSR sites in search of news worthy of the Center for Business as an Agent of World Benefit (BAWB) website, I see ever expanding arguments and concepts. As another commentary “googles up” in my search, a pressing thought comes to mind. The movement towards a sustainable business model,
with all its victories and achievements, has been largely concentrating on the ideas and abstractions, failing to develop a coherent practical face.

On the abstract, conceptual level the field is blossoming; to the point that I find myself drowning in the long list of terms used to describe elevated role of business in society. Corporate social responsibility, sustainability, corporate citizenship, corporate responsibility, corporate social performance, business citizenship, and corporate citizenship, business ethics, stakeholder management, relationships, and engagement – the list of concepts and theoretical frameworks grows everyday, reflecting the maturity of the 35-year-old field.

In practice the vast majority of the private enterprises remain deeply attached to the “maximizing the return to shareholders” view of the business agenda (Laszlo, 2003; Senge, 1994; Walsh, Weber & Margolis, 2003), leaving 80% of humanity disenfranchised from distribution of the world’s wealth (Prahalad, 2005). The lack of a well-developed change framework for integrating world benefit agenda into the core business practices stands as overwhelming opportunity to reach the tipping point for advancing world benefit agency of business as institution of society. As the Forum for the Future suggests, “the concept of sustainable development is … still only inches us towards understanding how it may be implemented, and does not really help with the question of “What to do to make a difference on a Monday morning?“ (Forum for the Future, 2003, p. 15).

Aiming Higher: Corporate Social Responsibility in the Emergent Economies

While moving an organization towards an internalized and operationalized world benefit agenda is a task in itself, drafting this kind of change in the context of emergent economies is particularly challenging. Extreme poverty, political and social instability,
devastating health epidemics, environments of hopelessness, omnipresent corruption are just a few items on the long list of demands and constraints that construct the reality of the developing world. Corporate responsibility, sustainability, and a world benefit agenda in general are often perceived as irrelevant. Initiatives like Ethos Institute and SustainAbility’s Emergent Economies Program are exceptions rather than a norm. Among all the research done in the field of corporate social responsibility, only one significant study addresses the needs of emergent economies. The illusive issue of relevance, so central to this state of affairs, has been directly responded to by a comprehensive study of 240 diverse companies in 60 countries of Africa, Asia, Central and Eastern Europe, the Middle East and Latin America. “Developing Value: The Business Case for Sustainability in Emergent Markets” (2002), undertaken by SustainAbility, suggests that sustainability has deep and real relevance for developing countries, offering “the opportunity for businesses to achieve benefits such as higher sales, reduced costs and lower risks from better corporate governance, improved environmental practices, and investments in social and economic development” (Developing Value, 2002, p.2). While SustainAbility’s “Developing Value” speaks only to the “why” of CSR in the developing world, it does provide some hints to another major knowledge gap in this field: the “how” of Corporate Social Responsibility in the emergent economies. In addition to describing the positive relationships between social, environmental, and governance issues to business performance and overall success, “Developing Value” draws attention to another important fact about the effort of implementing CSR in the emergent economies: the ground has been broken, the pioneers have set the sail, and the first success stories have surfaced to be told. It is precisely the pioneers and success
stories that might hold the answers to the secret of successful integration of sustainable practices into the core business process within the context of emergent economies.

Indeed, the stories of excellence are already reaching the surface. As I am typing these very words, companies in many emergent markets around the world are developing, implementing, and harvesting fruits of innovative CSR/sustainability programs. Among these companies are:

- Hindustan Lever Ltd., India’s leading consumer goods company, has developed an alternative stable iodine for salt, which is effective in treating Iodine Deficiency Disorder hindering the growth and intellectual development of 70 million people, AND has invented an alternative distribution system of village-based entrepreneurs who sell products in remote areas, ensuring salt availability, as well as providing jobs, income, and self-respect for the poor (Prahalad, 2005).

- KazKommertzBank, Kazakhstan’s largest private bank, has pioneered annual Corporate Social Responsibility reporting as a part of its financial reporting with intent to re-define its measures of success, re-direct internal strategy and processes, create a new standard for corporate reporting in Kazakhstan, and raise public awareness around sustainability issues (KazKommertzBank, 2003).

- Tiniara Farm, Brazil’s innovative private farm, has used organic agriculture as a means for revitalizing the local community, developing environmentally sustainable practices, reviving and recycling degraded facilities, and engaging, educating, and retaining local residents (BAWB Brazil, 2005).

These pioneering projects reflect the existing range in the current efforts to implement Corporate Social Responsibility in the emergent economies, which can be measured in
geographical, financial, and organizational terms. Corporate Social Responsibility efforts differ greatly in terms of their presence, or lack there of, on different continents, within the different business sizes or organization types, and on the core financial reports of the businesses in the developing countries. Significant change appears to be imminent if the world is to take advantage of the business, environmental, and social opportunity that Corporate Social Responsibility and Sustainability offer to the emergent markets.

And Even Higher: Business as an Agent of World Benefit in the Former USSR

Among the diverse group of emergent economies, the countries of the former USSR stand in particular isolation (See Exhibit 1 for a brief overview of the economic, political, and historical context of the former USSR).

Internally, the private sector of these newly independent states is rarely engaged in global social responsibility initiatives and pays little attention to the systems which it operates within. Of 2207 corporate members of the United Nation’s Global Compact, only 10 Russian companies, or 0.45% of the total number of participants, remain active; the rest of the Newly Independent States are represented by one active company (The Global Compact, 2005). The Prince of Wales International Business Forum, a 75 member organization, has only two companies, or 2.6% of the total membership, representing the former USSR, both Russian companies (The International Business Leaders Forum, 2005). While Russia leads the region in the area of CSR, its low level of engagement in the global sustainability efforts is particularly staggering for a member of the G8 Group and the 15th largest economy of the world.

Externally, research and consulting communities working in the area of corporate responsibility and sustainability have generally neglected this area of the world,
concentrating on such regions as South-East Asia, Africa and South America. In 2004 Russian Academy of Sciences in partnership with the National Investment Council published the first assessment of the public perceptions of the social role and social responsibility of large national companies, publishing “Large Russian Business: Social Role and Social Responsibility” Report (Russian Academy of Sciences & National Investment Council, 2004). The year also marked the first quantitative Report on Social Investment in Russia (Litovchenko, 2004), and that overview has also been produced locally, by Russian Managers Association, with support of United Nations Development Program. 2005 introduced a first “Corporate Social Responsibility in Kazakhstan” survey, commissioned and published by a local branch of a USA-based Eurasia Foundation (Eurasia Foundation, 2005). International organizations of any kind have not been actively engaged in CSR research and trend analysis for the Eurasian region. Aside from general statistical surveys, comprehensive case studies development or theory building in the area of business as an agent of world benefit is virtually absent when it comes to this part of the world.

Exhibit 1 Union of Soviet Socialist Republic: Brief Overview

The Union of Soviet Socialist Republics (USSR) was built on the remains of Russian Empire, which was torn apart by 1917 Revolution followed by lengthy and bloody Russian Civil War of 1918-1921. While the specific geographical boundaries of USSR varied significantly throughout 1945, for the most of its existence, the Union consisted of 15 major entities, including Armenian, Azerbaijan, Byelorussian, Estonian, Georgian, Kazakh, Kyrgyz, Latvian, Lithuanian, Moldavian, Russian, Tajik, Turkmen, Ukrainian, and Uzbek Soviet Socialist...

1 The data in this exhibit combines my personal first-hand knowledge with data provided by Wikipedia (2007).
Since the early days of the Soviet power, the self-appointed leaders of the country began intensive restructuring of the economy, industry and politics of the newly emerging state. Introduces via historic legislative documents, Bolshevik Initial Decrees, these changes included introduction of Communist Party as the sole decision-making authority of the state, abandonment of private property, re-structuring of land use for collective farming, introduction of total electrification of the country, development of centralized controlled economic planning, creation of a vast network of forced-labor camps (GULAG), and introduction of Five-Year planning, which spanned over all aspects and institutions of society, and defined the development of the country for the remainder of its existence.

The Second World War represents the turning point in the history of the former USSR, celebrated in the region to this date as the Great Patriotic War. Following the Nazi invasion of 1941, the “Red Army” stopped the Nazi offensive in the Battle of Stalingrad, lasting from late 1942 to early 1943, being the major turning point, and drove through Eastern Europe to Berlin before Germany surrendered in 1945. Although ravaged by the war, the Soviet Union emerged from the conflict as an acknowledged superpower rivaling the United States in the period from late 1940s to early 1990s, also known as the Cold War. Throughout the period, the Soviet Union maintained parity with the United States in the areas of military technology, but this expansion ultimately crippled the economy.

In 1985 Mikhail Gorbachev took leadership of the country, making an attempt to repair crumbling economic and political structures through the introduction of Perestroika (which offered changes around economy and decision making) and Glastnost (which dealt with freedom of speech and government censorship).

The late 1980s brought about sovereignty attempts by a few different entities, and by 1990 a law was passed that would allow a particular republic to secede if more than two thirds of its population voted affirmatively at a referendum, which led to Lithuania declaring independence. To offset this law, a referendum was held in March of 1991 to preserve the Union in nine out of fifteen republics. However, the affirming result of
the referendum was cancelled out by the August 1991 Coup – an attempt to take Gorbachev out of power by pro-Marxism members of the government. Yeltsin, then a head of the largest republic of the Union, Russia, played a key role in assuring the failure of the coup, and as a result, republics and its leaders received a power boost, and Latvia and Estonia immediately declared independence. While the remaining 12 republics continued to discuss new models of the Union, the presidents of Russia, Ukraine and Belarus signed an agreement of the dissolution of the Soviet Union in December 8, 1991. Despite doubts around the authority of this agreement remained, on December 21, 1991 representatives of all republics except Georgia flew to Kazakhstan to sign Alma-Ata Protocol, which confirmed the extinction of the Union of Soviet Socialist Republics. Gorbachev resigned on December 25th, and the following day the Supreme Soviet, the highest governmental agency of the nation, dissolved itself. The public was disengaged from the process, and the fate of 250 plus millions was decided by a handful of decision-makers.

At the time of its dissolution in 1991, USSR was the second largest economy on the planet. While this represented a significant achievement for the outside world, internally the state was suffering from a universal shortage of agricultural and consumer products; store lines were the signature of the past decades of the USSR existence. Due to the poor quality of its products, the Union was generally only able to export raw materials, which lead to a negative balance of payments, and an ultimate state-level bankruptcy. As a result, the collapsing political structures were equally matched by disintegrated economic infrastructures; at present, the countries of the former USSR are ranked between number 59 (Russia) to number 156 (Tajikistan) in the IMF List of GDP per capita.

Meanwhile, the reports from public and private sectors alike demonstrate that the need for such research grows. “2004 Report on Social Investment in Russia” (2004) shows that nationwide the ratio of social investments to gross sales reached 1.96%, to pre-tax income – 11.25% (more on the quality of these investments later); and such expenses are estimated to go up by 10%, although that could be potentially offset by inflation (Litovchenko, 2004). In other words, companies spend almost 2% of revenues, and over
11% of profits on activities aimed at social development. While companies continue to increase their expenses on human resource development, health and safety, resource saving, ethical business conduct and local community development (all components of the “social investments” construct as used by the “2004 Report on Social Investment in Russia”), little to no data-based frameworks, examples, and recommendations exist for such companies to use for efficient engagement for societal benefit. In addition to the company-driven demand for theory and practice of sustainable business development, the public of the former USSR demonstrate growing expectations for the level of social responsibility of the local businesses. As of 2004, 61% of the Russian population, who represent different stakeholder groups in the private sector, thinks that it is more important to increase the social responsibility of local business than to increase its profitability and effectiveness (Russian Academy of Sciences & National Investment Council, 2004). The conclusion I draw is straight-forward:

Companies in the emergent economies of the former USSR have an enormous opportunity to advance their businesses and their social and physical environments through the means, tools, and methods of corporate responsibility and sustainability.

I believe that two factors are crucial if the world is to capitalize on this opportunity:

- At the level of theory, it is necessary to develop a framework that connects the most solid research on the business case for Corporate Social Responsibility and sustainability with research-grounded recommendations that are specific to the realities of Eurasian countries;
• At the level of practice, it is important to disseminate the stories of local champions – companies of the former USSR that successfully integrate profit with social, environmental, and governance excellence.

It is my hope that a dissertation project built on multi-faceted partnership between the Case Center for Business as an Agent of World Benefit and various invested organization has a potential to be instrumental in addressing both of these needs. In the next section I will dive into the specifics of my dissertation proposal, with a hope to reach clarity around the research interest I am following, the language I am using, and questions I am going after.

From General to Specific: What I am after

To this point I have been using the terms “Corporate Social Responsibility” and “Sustainability” interchangeably and rather loosely, utilizing them to bind all activities that are directed towards development of a positive relationship between the private sector and the rest of society. While both terms serve the purpose of introducing the context of my research interest (after all, these are the best I’ve got), they do not satisfy or match the philosophical underpinning I am resting my questions on. Thus, the time has come to dive into the issue of language; it is my hope that my own sense-making of terms and constructs will not only bring about the operational definitions I will use throughout the project; but will also, in most deepest way, shine the light on what I am looking for.

The theory and practice of business alike do not have a clear consensus around the language of business-in-society realm. Sandra Waddock’s words speak pointedly of the “parallel universes” that distinguish the semantic camps of academics and practitioners: “Physicists now believe that the universe may be only one of many parallel universes, existing simultaneously, and yet conceivably quite different from each other and from the
day-to-day world we know. So too, academic- and practice-based thinking about corporate citizenship (corporate responsibility) and stakeholder thinking seem to have evolved in parallel, sometimes overlapping but sometimes universes apart.” (Waddock, 2004, p.5). The field does not have one widely accepted view of what corporate social responsibility or sustainability actually means; what is accepted indeed is for all players to use their own preferred definitions. In this section, I will review the variety of definitions that are currently in use, and then propose an integrative alternative I will use for the purposes of this research project.

Waddock (2004) proposes a definition of Corporate [Social] Responsibility as “the degree of (ir)responsibility manifested in a company’s strategies and operating practices as they impact stakeholders and the natural environment day to day”; Freeman (1984) offers a popular alternative to the CSR concept - Stakeholder Approach to Management - which suggests that a company’s ability to add value goes beyond pure shareholder interest and rests on its relationships with wide range of stakeholders (such as employees, natural environment, suppliers, etc). Corporate Social Responsibility as defined by the Social Economic Council (2001) incorporates both of the above mentioned definitions, suggesting that CSR incorporates (a) sufficient focus by the company on its to contribution to public prosperity in the long term, and (b) the relationships with its stakeholders and society as a whole.

Sustainability (or sustainable development), first defined by the World Commission on Environment and Development in 1987 as “the ability to meet needs of the present without compromising the ability of future generations to meet theirs” (World Commission on Environment and Development, 1987, p. 43), was later elaborated by SustainAbility’s “triple bottom line” concept, as a business model that rests its success
equally on three pillars of profit, people and planet (SustainAbility, 2005). The Dow Jones Sustainability Indexes suggest its own definitions of corporate sustainability as a “business approach to creating long-term shareholder value by embracing opportunities and risks deriving from economic, environmental, and social developments” (Dow Jones Sustainability Indexes, 2005).

A few definitions combine the “responsibility” and “stakeholder” notions of the abovementioned CSR constructs with the “profit-people-planet” notions of the presented sustainability constructs. CSRWire, the highly regarded Corporate Social Responsibility Newswire Service, suggests that “Corporate Social Responsibility (CSR) aligns business operations with social values…integrates the interests of stakeholders—all of those affected by a company's conduct—into the company's business policies and actions [and]…focuses on the social, environmental, and financial success of a company—the triple bottom line, with the goal being to positively impact society while achieving business success” (CSRWire, 2005). Business for Social Responsibility, a global organization that unites business, academia and the non-profit sector around business-in-society issues, follows the same integrative path, defining Corporate Social Responsibility as “achieving commercial success in ways that honor ethical values and respect people, communities, and the natural environment” (Business for Social Responsibility, 2005).

While both of these definitions depict CSR/sustainability as a highly integrated business model or alternative approach to business, the world of business practitioners does not give Corporate Social Responsibility and/or sustainability such merits. The KPMG International Survey of Corporate Responsibility Reporting (2005) finds that 129 (or 52%) of Fortune 250 companies issue public non-financial reports (generally known as
Sustainability, CSR, or Corporate Citizenship reports); while the survey celebrates the rise of this number in the past years and denotes it as “good news”, I find it particularly ironic that even at its best CSR/sustainability activity of business remain standalone, separate, “on-a-side”, and clearly a secondary domain of action as compared to the financial bottom line domain tracked by financial reporting. Rather far from an integrated penetrated business model, isn’t it?

The array of definitions and constructs might just be the best illustration of the deeper underlying issue: the vast contradiction and controversy surrounding the notions of role and purpose of business in society. On one hand, public and private sectors alike pose high demands (and present high opportunities) for corporations to engage in ever-growing needs of society (Margolis & Walsh, 2003; Prahalad, 2005), calling for a new set of rules for economic value creation (Freeman, 1994; Jackson & Nelson, 2004; Laszlo, 2003). On another hand, short-term profit maximization remains the dogma of the business world (for example, see passionate words of Crook (2005) in the 2005 CSR survey by the Economist), and many academics of the world continue the legacy of Levitt (1958) and Friedman (1970) with unequivocal views of increased shareholder wealth as the only social responsibility of business (see, for example, the strong opinions of Easterbrook and Fischel, 1991; Sternberg, 1997; and Jensen, 2002). “With social misery and the imperative of corporate involvement, on the one hand, and the skeptical economic rationale, on the other, attempts to mobilize corporate social initiatives reach an intense pitch”, say Margolis & Walsh (2003, p.271), and the overflowing lists of terms and concepts might just be the sheet music for this trying sound.
While I find the conflicting arguments fascinating and stimulating, I myself am not eager to participate in definition of the norms for the role of business in society, leaving the questions of what it *ought* to be to others. Rather, following the invitation of Positive Organizational Scholarship to go beyond normality towards excellence (Bright, 2005), I am wondering about what it *can* be – in the best possible world:

*What are the best possible roles that private enterprise can play in the realm of human history and progress? What can the most mutually beneficial business models look like? What would the most integrated economic-and-social agency look like? And for my specific context, what is the best possible role that business can play in the formation of an emergent economy and the overall advancement of the post-soviet countries?*

Of course, this direction itself is not spared of the normative stance; and my interest, as expressed through the overarching questions above, reflect at least one particular set of rules and norms: the rules of what constitutes the “best” (and, by default, the “worst”). Naturally, what one sees as the “best” is tightly linked to his or her overall philosophies, beliefs and assumptions; hence I, too, am bound to define the “best” in accordance with personal preferences. In my case, and for the purposes of this project, the “best” is defined by the highest degree of mutual benefit, or win-win, achieved for all parties via a particular business model, action, or approach.

Now about this choice of definition in depth.

*The Best Possible World: Mutual Benefit*
A few weeks ago I had a wonderful conversation with Dr. David Cooperrider, who responded to my general research interest with the following quote from Kropotkin’s (1993) “Mutual Aid”: “man is appealed to, to be guided in his acts, not merely by love, which is always personal, or at the best tribal, but by the perception of his oneness with each human being. In the practice of mutual aid, which we can trace to the earliest beginnings of evolution, we thus find the positive and undoubted origin of our ethical conception; and we can affirm that in the ethical progress of man, mutual support – not mutual struggle – has had the leading part. In its wide extension, even at the present time, we also see the best guarantee of a still loftier evolution of our race” (Kropotkin, 1993, p.234).

This quote – with its intense convictions and uplifting visions – struck a particular chord. The notion of the consciousness of oneness – wholeness, interconnectedness – has been front and present for me for quite some time now; and transferring this notion into the realm of business-in-society is only a natural extension of my previous work around gift cultures and economies (Zhexembayeva, 2004). If there is one thing that I learned from successful economies built on the principles of unconditional gift – as opposed to contractual exchange – is that abundance and generosity for all (here goes my embedded definition of the “best”) stem from realization of oneness, interconnectedness, and mutuality of all beings. Bring it up a notch to the level of a planet, and the question of interconnectedness stand before business – which is, after all, both economic and social entity (Freeman, 1994). So I wonder: what is the best way for create mutual benefit and win-win in the relationship between business and the rest of society?

I see the signs of answer to this question in the very CSR and sustainability terms discussed earlier. Making sense of the business-in-society constructs and frameworks
that have been created over the last few decades, I see certain ascension in the level of mutual benefit as we move from the early concepts of compliance to the later concepts of sustainability and the triple-bottom-line. Exhibit 2 serves as a graphic illustration of this sense-making exercise.

While a particular ratio of business-to-societal benefit may vary for an innovation developed within each of the five overarching frameworks (Compliance and Disclosure, Business Ethics, Philanthropy, Corporate Social Responsibility, and Sustainability), the definitions of each framework suggest that the overall level of mutual benefit has been going up. And it is my great hope that (even at the level of theory) we are far from reaching the limit.

Exhibit 2 Mutual benefit in the current business-in-society frameworks

<table>
<thead>
<tr>
<th>Business Benefit</th>
<th>Societal Benefit</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sustainability</strong></td>
<td>Owners, society and environment as equal measures of success and responsibility</td>
</tr>
<tr>
<td><strong>Corporate Social Responsibility</strong></td>
<td>Expand your level of responsibility but keep the priority at financial performance</td>
</tr>
<tr>
<td><strong>Philanthropy</strong></td>
<td>Donate a portion of your income to charitable causes in exchange for tax benefits and PR</td>
</tr>
<tr>
<td><strong>Business Ethics</strong></td>
<td>Act “morally right” when law is non-present or such</td>
</tr>
<tr>
<td><strong>Compliance and Disclosure</strong></td>
<td>Follow the law</td>
</tr>
</tbody>
</table>
For all practical purposes, in academic and practitioner circles alike, the mutual benefit conversation has been represented by so called “business case” research, which aims to link corporate social performance (CSP) with corporate financial performance (CFP). From the first academic article by Bragdon and Marlin (1972) to the current practitioner reports by 21 leading financial institutions (The Global Compact, 2004), numerous work has been investigating the potential for a positive link between social activities and the bottom line of a corporation, and did so with somewhat consistent success. The creation of sustainable value (which is, according to Chris Laszlo (2003), the kind of economic value that is rested on sound environmental and social practices) has been directly linked to such variety of sources as customers (Organic Consumers Association, 2005; Prahalad, 2005); investors (Fiorina, 2004; Ethical Corporation, 2005), and improvements to company operations (Laszlo, 2003).

While I understand the practical necessity of the business case research as a means to “get the skeptics on board”, I also see it as a one sided approach, where business benefit is put ahead and above the societal benefit with a drive back to the single bottom line. The profit maximization model makes sense within a context of early market economy, where enterprises were embedded in the local communities, providing jobs and other means of wealth distribution to the society at large. Within such context the wealth accumulated by a business granted automatic benefit to the local community – beyond jobs, the owners would generally live in the same locality, invest in its infrastructure development, and provided a wide range of advantages to the large group of stakeholders. In the present times of globalization and, ironically, compartmentalization, business has decreased its ability and/or desire to distribute wealth among various stakeholders, and most often transfers the wealth from one group of stakeholders (e.g. the developing world) to another
(Laszlo, 2003). With such significant changes, the business case conversation contributes to the zero-sum model of operations the 21st century corporation is so famous for. Mutual benefit, when embedded as a core trait of any business-in-society framework, would move us beyond the win-lose approach towards a truly successful relationship between business and the rest of society.

With that, within the realm and for the purpose of this project I will use Corporate Social Responsibility and sustainability interchangeably, and define them as the corporate activity or approach that successfully integrates business benefit with societal benefit, as demonstrated by advancement of people, profit, and planet.

I hope that this definition echoes the convictions of many scholars of the field, Drucker (1954), Wood (1991), and Lunheim (2003) among them, portraying business and society as “interwoven entities” (Wood, 1991), speaking to the “holism of business-society interface” (Lunheim, 2003), and calling for business, the core “organ of society,” to direct its action towards the overall strength, stability and harmony of the society (Drucker, 1954).

Moving from the subjects of language and philosophy to the subjects of geography and history, I will next spell out the core research questions I am pursuing with the project. While the questions represent the point of departure, rather than the destination, they do sketch a map for the project to navigate.

**Corporate Social Responsibility, Eurasia, and Advancement of Society: My Research Questions**

Everything I know about the state of the business-in-society conversation within the context of post-soviet economies I have spelled out in the introduction section of this
paper; and all my knowledge can be summarized in a simple line: there is a great demand, and not much supply. On one hand, there is not a month that some sort of Corporate Social Responsibility event does take place, bringing in people of all walks of life to discuss the role of business in post-soviet society. On another hand, big and small business alike have little practical experience with integrating any kind of social benefit agenda into their business operations.

And there are plenty of reasons for such word-to-action disconnect. Following the path of many developing countries, nations in the Eurasian region see pragmatic business agendas and skills as their top priority. When compiling a simple balance sheet is a new matter to consider, issues of social benefit are viewed as simply irrelevant; and the content of business training in the region (generally lead by Russian Federation) is reflective of such state of affairs. A 2004 article by David Harrison and Patsy Lewellyn – possibly the only one published paper that connects the CSR concept with the Eurasian region in the Western academic outlets – speaks powerfully to the realities of Russian development: “When considering ethics in Russia, one must first understand that the Soviets' high levels of social consciousness and ethical standards were rigorously promoted to citizens. In clear contrast to Soviet times, issues of social consciousness were either largely ignored or simply took lower precedence to the new issues of job creation and economic progress. This prioritization reflects not so much a conscious decision or omission, but it is more likely a straightforward and pragmatic, if not simplistic, reaction to apparent critical needs. Jobs first! This maxim is all too logical, all too practical, and, unfortunately, all too familiar. Thinking beyond the short term may seem a luxury that can be afforded later when more substantial development is under way” (Harrison & Lewellyn, 2004, p.27).
Even when a company does consider its impact on society, it sees its main contribution manifested through investments in its employees. The 2004 Report on Social Investment in Russia (Litovchenko, 2004), for example, shows that 64.9% of what Russian corporations consider as their ‘social investments’ is allocated to HR Development (52.3%) and Health & Safety (12.6%) - activities often perceived as normal business practices in the West. Meanwhile, Ethical Business Conduct receives only an average of 3.7% of the total volume of social investments (Litovchenko, 2004).

While I can easily relate to the pragmatic outlook of my fellow ex-soviets, I cannot be a part of the prevailing ethos of irrelevance of Corporate Social Responsibility within the context of emergent economies of the former USSR. Both our pre- and post-communism history makes us naturally receptive to the appeals of social consciousness of interconnectedness – possibly much more so than the more developed economies of the West (Harrison & Lewellyn, 2004). Also, we as a region simply cannot afford living though the turbulence of unsustainable approaches to business development, where the wealth is not created and distributed, but simply moved from one group to another. Two major social, economic and political revolutions in the last 100 years have left few resources, both material and non-material, to spare for another collapse. Sustainable development, then, can only be achieved through successful integration of business and societal benefit through innovations, activities, and models that assure high level of mutuality aid for all parties involved.

Thus, the primary research questions emerge as follows:

1. How do companies of the former USSR successfully integrate business and societal benefit in their strategy and operations?
a. What do the best processes of integration look like in this context?

b. What do the best final outcomes look like in this context?

2. What are the forces and factors – both internally (management practices, leadership approach, etc.) and externally (history, culture, government regulations, etc) - that contribute to successful integration of the business and society benefit?

These two rather straightforward questions have put me on a road of predictable excitement and unpredictable confusion. What once seemed to be a linear process soon turned into a journey of many loops, u-turns, and life-giving discoveries. In the next chapter I will speak to the design and methodology of the study, which allowed me to explore these questions in depth. Chapter 3, 4, and 5 take a stab at the first research question stated, offering stories of three corporate innovations that successfully integrate benefits for business and society; while Chapter 6 offers results of a multi-layered analysis demanded (somewhat unexpectedly) by the data. Finally, Chapter 7 will put data-driven discoveries into the context of the larger organizational research, offering extensions, further questions, and general contributions to the field.
CHAPTER 2
The Way I Got There: The Process

Through this research project, I sought to understand how companies of the former USSR successfully integrate business and societal benefit in their functioning, both, from process and outcome perspectives. A number of research traditions have blended together throughout the process of this inquiry. However, for me, the general frame defining this process has been that of Grounded Theory building done in the spirit of Appreciative Inquiry. In this chapter I will share my reasoning for choosing, or, more precisely, molding, a particular research model aimed at answering specific research question; describe in great detail the process of the inquiry; and speak about particular methodologies and tactics used at different stages of the research.

In the process of selecting the frame of research I have decided to follow the advice of Patton (2002) to start with the nature or the essence of the research question. Upon consideration of the general topic of the inquiry, both, affirmative and generative in nature, I have chosen to organize this process as an Appreciative Inquiry (Cooperrider & Srivastva, 1987; Cooperrider, Sorensen, Whitney, & Yaeger, 2000). Appreciative Inquiry (AI) is a philosophy and an approach to organizational analysis that is based on the assumptions that organizing is not a “problem to be solved”, but rather “a solution to be discovered and embraced” (Cooperrider and Whitney, 1999). AI invites every inquiry to start with appreciation of what gives life to a human group or organization. Following this invitation, I have searched for and learned from the success stories – best business-in-society innovations and activities of Eurasian companies. As no company is perfect when it comes to the progress towards a fully sustainable company with high level of mutual
benefit for business and society, I focused on specific innovations – product, process, business practice, partnership model, and such – that allow for the highest degree of mutual benefit for all parties involved within the specific historic and geographic context.

Contained within the philosophy of Appreciative Inquiry, the research model emerged as follows:

- First, I selected and produced four case studies of business-in-society innovations developed and implemented by a Eurasian company; analysis of factors and forces behind each successful innovation was included in the case study write up. Choosing four, rather than less or more innovations, is a subjective preference, as I believe four in-depth innovation stories will provide enough variance while remain a manageable amount of data.

- Second, I have conducted an analysis across case studies to uncover common patterns and trends to develop a general framework of successful ‘mutual benefit for business and society’ model for the companies of the emergent economies of the former USSR.

**Sampling and Data Collection**

My choice of questions and methods for this project required a careful selection of “the best there is” when it comes to Corporate Social Responsibility and sustainable business development in the context of the former USSR. To get help with selecting “the best” (and, simultaneously, foster a conversation of what “the best” means in this particular environment), I have solicited help of the top thinkers in the very narrow field of “CSR in
Eurasia”. Literature and ‘state of the affairs’ analysis done at the beginning of the project allowed me to identify such leaders, and obtain their agreement to volunteer as a panelist at the virtual panel of expert advisors for this project. Six organizations were originally identified to be included in the panel include:

- United Nations Global Compact (New York, USA),
- Russian Managers Association (Moscow, Russia),
- The Prince of Wales International Business Forum, in particularly The Russia Partnership for Responsible Business Practices (London, United Kingdom),
- Members of the Regional Network of the World Business Council for Sustainable Development, in particularly Vernadsky Foundation (Moscow, Russia) and the Kazakhstan Business Association for Sustainable Development (Almaty, Kazakhstan),
- Eurasia Foundation, in particularly the Central Asian Office (Almaty, Kazakhstan),
- The Center for Business Ethics and Corporate Governance (Saint Petersburg, Russia).

Five out of seven organizations contacted have responded and agreed to participate in the project; two organizations, the Vernadsky Foundation and the Kazakhstan Business Association for Sustainable Development, did not respond; and an alternative “expert” was identified to supply expertise in the domain of ecological sustainability. The final
The composition of the panel of experts emerged as 6 individuals designated by their respective organizations:

- Denise O’Brian, United Nations Global Compact (New York, USA), interviewed over the phone;
- Ekaterina Ivanova, Russian Managers Association (Moscow, Russia), interviewed over the phone;
- Brook Horowitz, The Prince of Wales International Business Forum’s Russia Partnership for Responsible Business Practices (London, United Kingdom), interviewed in person;
- Andrew Wilson, Eurasia Foundation, the Central Asian Office (Almaty, Kazakhstan), interviewed over in person;
- Mathew Murray, Center for Business Ethics and Corporate Governance (Saint Petersburg, Russia), interviewed over the phone;
- Elena Bondarchuk, Institute for Sustainable Communities (Moscow, Russia), interviewed over the phone.

While three out of six organizations were headquartered in the Russian Federation, all of them had partnerships or managed projects across a wide range of countries from the former USSR.

Each participating expert was requested to nominate five innovations, which are developed by companies, that meet the following criteria:
a. Incorporated within the boundaries of the Commonwealth of Independent States comprised of 12 post-soviet nations - Latvia, Lithuania and Estonia will be omitted from the study due to historical distinctions as demonstrated by their membership in the European Union;

b. Local ownership 51% and up (of the total assets), and local management 51% and up (of the total number of management staff) – companies with significant foreign ownership and management will be omitted from the study to weed out pre-existing CSR/sustainability practices that were transferred from foreign contexts, rather than grown within the particular social, economic, historical, and political context of the former USSR; and

c. Evidence of outstanding social activity and integration of the world benefit agenda into the core strategy and operations.

However, rarely did any expert suggested five innovations that would meet all four criteria, which speaks to the general lack of information on this subject, discussed in Chapter 1. At the same time, a few innovations were nominated by more than one expert. Table 1 offers a summary of all nominations meeting the criteria set for the project.

<table>
<thead>
<tr>
<th>#</th>
<th>Innovation</th>
<th>Company</th>
<th>Industry</th>
<th>Size</th>
<th>Region of Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Culture of social responsibility*</td>
<td>Kazkommertsbank</td>
<td>Banking &amp; Finance</td>
<td>Large</td>
<td>Kazakhstan &amp; Central Asia,</td>
</tr>
<tr>
<td></td>
<td>Manifested via the first regional corporate philanthropic foundation, the first regional social reporting initiative, and the first regional U.N. Global Compact membership.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>---</td>
<td>---</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Comprehensive community development for company’s operating regions*</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Manifested via a public-private partnerships to address poverty alleviation, health care, environmental restoration, and youth development in the rural regions of company’s operations.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>SUAL Group Mining &amp; Metals Large Russian Federation, Urban and Rural</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Culture of holistic sustainable community development</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Manifested via a business model that aligns community interest and business interest for promotion of self-reliance and sustainable development.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>ALVI Inc. Forestry Medium Russian Federation, Rural</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Nationwide Small and Medium Enterprise development*</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Manifested via a competitive grant program coupled with an extensive mentorship model for new emerging SMEs.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Yukos Mining &amp; Metals Large Russian Federation, Urban and Rural</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Development of financial</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Eurasia Bank Banking Large Kazakhstan</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>literacy and enhancement of access to financial resources for general population</td>
<td>&amp; Finance &amp;</td>
<td>&amp; Central Asia, Urban</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Manifested via a reality TV show providing financial education and tools for potential entrepreneurs disfranchised by the existing banking and educational systems.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Dissemination of international standards of corporate governance and business conduct</td>
<td>Troika Dialog</td>
<td>Banking &amp; Finance</td>
<td>Large Russian Federation, Urban</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Manifested by a corporate governance investment risk profiling for Russia’s 60 largest corporations, which advices potential investors on buying or selling specific company shares.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>Sustainable forestry model</td>
<td>Ilim Pulp</td>
<td>Forestry</td>
<td>Large Russian Federation, Urban and Rural</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Manifested via comprehensive audited methods for re-forestation, low-waste production processes, increased efficiency of the treatment facilities, and reduced emissions and discharges of chlorine organic compounds.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>Youth skill development*</td>
<td>Norilsk Nickel</td>
<td>Mining &amp; Metals</td>
<td>Large Russian Federation, Urban and Rural</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Manifested via a multi-year program to increase employment opportunities</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Overall, eleven distinct innovations for mutual benefit for business and society in the former USSR have been nominated by the panel; most nominations represented companies of Russian Federation; Kazakh companies had two nominations; no other countries of the twelve target nations of the former USSR were represented. However,
the nominations ranged widely in terms of representation of regions of impact: various urban and rural areas in two countries were represented. This variance increased the likelihood of transferability of lessons to be derived from the data across all of the formerly Soviet countries.

As stated earlier, I had intended to narrow the entire nomination pool to four stories to be studied in depth, and exactly four innovations have received multiple nominations, so I selected these innovations with most backing from the experts. As a set, the four stories (Kazkommertsban’s corporate charity foundation, SUAL Holding sustainable community development program, Yukos SME enhancement project, and Norilsk Nickel youth education project) represented two countries (Kazakhstan and Russia), a mix of urban and rural areas, and companies from manufacturing (mining and metals) and services (banking and finance) industries. However, by the time the choice was due, one of the companies, Yukos, happened to be amidst highly publicized criminal trial related to corporate conduct, taxation violations, and such. Therefore, I omitted Yukos’s innovation from the research. Additionally, upon the initial contact, one of the three remaining companies, Norilsk Nickel, refused to participate citing scheduling conflict. Off the remaining nominees, the corporate governance investment risk profiling by Troika Dialog appeared as the most interesting and mutually beneficial innovation, and seem to provide additional diversity of impact to the set; so it was selected, invited, and confirmed case study number three. Despite all efforts, any further selection and invitation for potential case studies did not yield an acceptance; therefore, three cases were finalized as the data set for the project. Tables: Table 2, Table 3 and Table 4 summarize the stories selected for the project.
Table 2 Case Study A

“Kus Zholy”: The New Face of Kazakh Social Engagement

<table>
<thead>
<tr>
<th>Innovation</th>
<th>Community Charity Foundation “Kus Zholy”</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mission</td>
<td>To promote the mission and strategic priorities of JSC “Kazkommertbank” by establishing programs that foster proactive approach to live, support personal initiative and responsibility, and encourage healthy self-esteem among the citizens of Kazakhstan.</td>
</tr>
<tr>
<td>Year of Establishment</td>
<td>2004</td>
</tr>
<tr>
<td>Staff Size</td>
<td>2 employees</td>
</tr>
<tr>
<td>Budget, 2005</td>
<td>US $1 million</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Company-innovator</th>
<th>Joint Stock Company “Kaskommertsbank”</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mission</td>
<td>To assist in development of economically sound and spiritually rich society in the Republic of Kazakhstan by providing the nation’s best banking and financial services to corporate and individual clients.</td>
</tr>
<tr>
<td>Year of Establishment</td>
<td>1990</td>
</tr>
<tr>
<td>Staff Size</td>
<td>3,500+ employees</td>
</tr>
<tr>
<td>Revenues, 2005</td>
<td>US $283.88 million</td>
</tr>
</tbody>
</table>

| Interviewees       | Daulet H. Sembaev  
Deputy Head of the Board of Directors, Kazkommertsbank  
President, Kus Zholy Charity Foundation |
|-------------------|-------------------|
|                   | Gulshat Baimuratova  
Head, PR Projects Division, Department of Public Relations, Kazkommertsbank  
Executive Director, Kus Zholy Foundation |
|                   | Larisa Kokovinez  
Director, Department of Public Relations, Kazkommertsbank |
|                   | Aigerim Muhamediyarova  
Commercial Assistant, Almaty Branch, Kazkommertsbank  
Volunteer, Kus Zholy Foundation |
|                   | Dina Nurpeisova  
Deputy Director, Almaty Branch, Kazkommertsbank  
Volunteer, Kus Zholy Foundation |
|                   | Nazira Satbekova  
Director, Department of Financial Institutes, Kazkommertsbank  
Volunteer, Kus Zholy Foundation |
|                   | Andrew Wilson  
President, Eurasia Foundation of Central Asia |
Table 3 Case Study B

**Complex Socio-Economic Development in the Regions of SUAL Group Presence**

**Innovation**

Partnership-run program “Complex Socio-Economic Development in the Regions of SUAL Group Presence”

*Mission*  To create stable socio-economic environment favorable for improvement of the quality of life in the regions of SUAL Group operation via effective stakeholder cooperation.

*Year of Establishment*  2004

*Project Staff*  12-person management team comprised of 2 SUAL Group representatives, 2 USAID representatives, and 8 NGO experts; additional 12-person implementation team per each cite.

*Budget, 2004-2006*  US $3.0 million

**Company-innovator**

Open Joint Stock Company “SUAL Holding”

*Mission*  To build a world-class natural resources company, successfully developing opportunities within the global mining business.

*Year of Establishment*  1996

*Staff Size*  60,000 employees

*Revenues, 2005*  US $2.7 billion

**Interviewees**

<table>
<thead>
<tr>
<th>Interviewee</th>
<th>Position and Organization</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vasilyi Kiselev</td>
<td>Vice President, Government Relations SUAL Group</td>
</tr>
<tr>
<td>Olga Fedoseeva</td>
<td>Head, Federal and Local Authorities Interaction Department, SUAL Group</td>
</tr>
<tr>
<td>Sergey Martyshenko</td>
<td>Head, Analytic and Project Division, Federal and Local Authorities Interaction Department, SUAL Group</td>
</tr>
<tr>
<td>Irina Lapidus</td>
<td>Portfolio Manager, Department of Social Policy and Business Development, The New Eurasia Foundation</td>
</tr>
<tr>
<td>Elena Bondarchuk</td>
<td>Project Manager, Institute for Sustainable Communities</td>
</tr>
<tr>
<td>Brook Horowitz</td>
<td>Executive Director, Russia Partnership for Responsible Business Practices</td>
</tr>
<tr>
<td>Ekaterina Ivanova</td>
<td>Head, Department of Committees and Expert Events, Russian Managers Association</td>
</tr>
</tbody>
</table>
### Table 4 Case Study C

**Troika Dialog Investment Risks Rating**

<table>
<thead>
<tr>
<th>Innovation</th>
<th>Troika Dialog Corporate Governance Investment Risks Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Year of Establishment</strong></td>
<td>2001</td>
</tr>
<tr>
<td><strong>Staff Size</strong></td>
<td>2 employees</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Company-innovator</th>
<th>Troika Dialog</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Mission</strong></td>
<td>“Troika Dialog is Russia’s largest and oldest investment bank. We are strongly focused on serving end clients; our leading business – research and market-making in Russian shares and corporate finance – are client driven… Our identity – who we are and how we work – is as important as our capabilities and services. We work within the context of a few fundamental beliefs and strategic strengths: Client Focus, Trust &amp; Integrity, Foresight &amp; Innovation, Teamwork, and Commitment to Russia.”</td>
</tr>
<tr>
<td><strong>Year of Establishment</strong></td>
<td>1991</td>
</tr>
<tr>
<td><strong>Staff Size</strong></td>
<td>400+ employees</td>
</tr>
<tr>
<td><strong>Trade Turnover, 2005</strong></td>
<td>US $ 74 billion</td>
</tr>
</tbody>
</table>

#### Interviewees and Major Data Sources

<table>
<thead>
<tr>
<th>Interviewees and Major Data Sources</th>
<th>Ruben Vardanian</th>
<th>Chairman of the Board of Directors and CEO</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Mikhail Tabakov</td>
<td>Corporate Governance Coordinator</td>
</tr>
<tr>
<td></td>
<td>Elena Krasnitskaya</td>
<td>Corporate Governance Analyst</td>
</tr>
<tr>
<td></td>
<td>Danica Purg</td>
<td>Dean and Founder, IEDC Bled School of Management</td>
</tr>
<tr>
<td></td>
<td>Brook Horowitz</td>
<td>Executive Director, Russia Partnership for Social Responsibility</td>
</tr>
</tbody>
</table>

- “The Corporate Governance Initiative of the World Economic Forum: Changing Corporate Governance in Russia”
- “Liberalization: Fiat Lux – Risk Profiles of Russia’s Largest Companies”

- Corporate Governance Investment Risk Report by World Economic Forum & Troika Dialog, 2001
- Annual Corporate Governance Investment Risk Report by Troika Dialog, 2006
Both, personal interviews and secondary data such as company internal documents, press coverage, and website information, was collected during the project. All documents were then reviewed and synthesized into three distinct case studies, reflected by Chapter 3, Chapter 4, and Chapter 5 of this document.

Data Analysis

Approaching the data analysis with a clear research topic or question before me – the forces and factors that contribute to successful integration of the business and society benefit in the former USSR – I chose to use the Grounded Theory model of qualitative research (Strauss and Corbin, 1988; Locke, 2002), an inductive approach to data analysis and theory building, with hope that clear concepts and propositions will emerge as a result of this approach.

Grounded Theory is an approach to theory building that is grounded in empirical observations. Its final product is to have “analytic generalization” (Yin, 1994), or an ability to plausibly explain a large number and range of empirical observations. Constant comparative method and theoretical sampling stand at the foundation of the analytic process of the Grounded Theory (Locke, 2001). Under the guidelines of constant comparative method, naming data elements and comparing data incidents and names are parallel complementing processes. Conceptualization does not occur as a linear process, but rather occurs through many iterations of creating new categories, revisiting and renaming the old categories, and so on (Strauss and Corbin, 1988; Locke, 2001). Theoretical sampling, in turn, is based on the researchers’ commitment to developing a
theory about a certain issue. This commitment may, as well, create iterations in the process of data collection, as concepts, categories, and an overall framework development may require additional data (Strauss and Corbin, 1988).

As suggested by the grounded theory model, my data analysis did not emerge as a linear process. Originally, I had intended to run the analysis in two major steps: intra-case study analysis, and inter-case study analysis. I started with this assumption, but did change the path as the analysis result suggested new levels of coding are required. Therefore, my grounded theory building emerged as follows:

1. Intra-case study analysis started with an open coding and then the codes were clustered into specific categories or concepts representing a specific factor of force contributing to successful integration of business and societal benefit in the former USSR. Clustered “factors” were written up as “lessons learned” at the end of each case study.

2. Inter-case study analysis started with comparison, contrast, and synthesis of factors identified within each individual case. A set of crucial factors and forces for mutual benefit for business and society in the former USSR emerged from this process; however, the resulting product suggested existence of a qualitatively different level of factors and forces unaccounted to this point. Upon this revelation, I have returned to the original data and the written case studies, and started with a new level of open coding, which then moved into clustering.

The detailed account of this re-iterative analysis, and its results, is offered in Chapter 6 & 7; however, I will now turn to the stories themselves to provide the rich data in which the emergent theoretical model is grounded.
Case Study A: “Kus Zholy”: The New Face of Kazakh Social Engagement

“Every spring the winged migration meant sure death for thousands of birds that lost their way. Then, the great ruler of geese Kyzyl-Khan came to Tengry requesting creation of a road map in the sky. Tengry took off his belt, and threw it onto the sky – the road was created. Ever since the sky is gifting us with the limitless lights of Kus Zholy – the Birds’ Way.”

Kazakh Myth

The words of this old Kazakh legend are prominently displayed on every web page of Kus Zholy Foundation. And there is hardly a better way to capture the spirit and the pursuit of Kus Zholy – the first Kazakh corporate charity foundation created by locally owned and managed Kazkommertsbank. It is that pursuit of light and ease for many of the “lost birds” of the post-Soviet Kazakhstan that is at the core of this innovative business practice for common good.

Created in 2004, “Kus Zholy” Community Charity Foundation represents Kazkommertsbank’s efforts to move from traditional philanthropy to a coherent Corporate Social Responsibility strategy. The Foundation is designed to assure creation of mutual benefit for society as well as the company, and operates under the principle of “equilibrium of tangible long-term impact for Kazakh society and reputational dividends for the Bank”2. To assure such delicate balance, the Foundation has been embedded into the Bank’s structure and day-to-day operations, running comprehensive monitoring and metrics systems to measure impacts, with both of its two employees holding prominent

---

2 Presentation of G. Baimuratova to a business ethics undergraduate class at Kazakh-Turkish University, Almaty, Kazakhstan
positions at the Bank, and all projects implemented by volunteers among
Kazkommertsbank’s employees. In just two years of operation, the Foundation carried
out hundreds of successful projects, programs, and grants aimed at developing a healthy
and happy society, all while engaging Kazkommertsbank’s employees, strengthening its
brand, and advancing its relationship with the public.

Kazkommertsbank: Innovations for the New Nation

Established in 1990 amidst the collapse of the USSR, Kazkommertsbank is the largest
private bank in Kazakhstan (Kazkommertsbank, 2006). Together with its affiliates, the
bank provides a wide variety of financial services, including corporate and retail banking,
investment, brokering, cash management, and other financial services. For the fiscal year
2005, the Bank had net income of KZT 19,141 million (U.S.$142.9 million), total assets
of KZT 1,194,869 million (U.S.$8,918 million) and shareholders’ equity of KZT 94,345
million (U.S.$704.2 million).

At present, KKB manages 23 full-service branches, 58 partial-service outlets, and 399
automatic teller machines throughout Kazakhstan, while operating a number of foreign
subsidiary banks in Kyrgyzstan and Russian Federation.

Since its inception, Kazkommertsbank has enjoyed a reputation of being a leader in
business innovation in Kazakhstan and the Central Asia (Kazkommertsbank, 2004), and
the list of the bank’s achievements includes being the first private institution in
Kazakhstan:

- To receive a full international audit report from Deloitte & Touche;
To offer telephone banking and internet banking services to its customers;
- To receive The Best Bank award from known international financial editions, with the total of 27 awards by the end of 2005;
- To obtain ratings from international rating agencies;
- To issue US$100M Eurobond (repaid in 2001);
- To receive an international syndicated loan; and
- To raise the largest international syndicated loan issued to any post-USSR state for US$1.3 billion arranged by The Bank of Tokyo-Mitsubishi, Ltd., CALYON, Commerzbank and Deutsche Bank AG, London Branch.

So, it came as no surprise that Kazkommertsbank also led the Corporate Social Responsibility movement in the country, being the first locally owned company:

- To add a social responsibility report as a section of the annual report in 2003;
- To establish a charity foundation as a mechanism of strategic social activity management in 2004; and
- To become a member of the United Nations Global Compact in 2005.

While the company has been engaged in community development and philanthropic activities for most of its existence, the establishment of the charity foundation marked the qualitative shift in the Bank’s approach to such engagement.

3 Interview with G. Baimuratova.

*From random charity to strategic social action: The genesis of CSR activity at Kazkommertsbank*
Between 1992 and 2003, Kazkommertsbank has contributed over US$ 10 million to philanthropy, committing up to 4% of its net profits annually (Kazkommertsbank, 2001, 2004). Issued as donations to organizations and individuals, these contributions came in handy to the country’s low annual per capita income, which ranged between US $432 and US $840 during the same time period (The Agency of Statistics of the Republic of Kazakhstan, 2006). Reflecting the values and moral positions of its founders, the Bank’s philanthropic and social commitments had strong financial backing, but were poorly organized. A committee of one to two people made all decisions on granting or rejecting a particular request in the absence of unified procedures or criteria for selection; the bank carried out no formal assessment accounting for the use of funds; and long-term programs showed little results (for an overview of selected programs run during this period, see Table 5). As Daulet Sembaev, Deputy Chair for the Board of Directors of the Bank and the President of Kus Zholy Foundation explains⁴:

“While some question the place of concern for community in the business of business, this is not what we stand for and believe in. Investing into community is what we believe in; but at the beginning there was no system, one person made all the decisions, and after 10 million [dollars] we were still nowhere.”

At the end of 2003 dissatisfaction with the processes and the impact of social and philanthropic activities of the Bank had reached the Board of Directors, and it was recommended to start development of an alternative approach for this area of Bank’s activity to assure:

⁴ Interview with D. Sembaev.
Better support of the strategic interests of the Bank, including reputation management and brand development, and

Improved social impact from the programs supported by the Bank.

Table 5 Examples of Kazkommertsbank’s Philanthropic Programs, 1992-2003

<table>
<thead>
<tr>
<th>Category</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poverty Alleviation</td>
<td>A four year program provided free hot lunches and food baskets to low-income families in 20 cities. Run in partnership with the Soros Volunteer House, the program distributed over U.S. $2.5 million in food and supplies.</td>
</tr>
<tr>
<td>Culture &amp; Arts</td>
<td>The Bank served a core sponsor of the first Kazakh T.V.-based singing competition “SuperStar.kz 2003”. The contest covered 16 cities of Kazakhstan, and inspired 5000 participants. SuperStar.kz aimed to promote the creative potential of the country, and obtained the highest broadcasting ratings.</td>
</tr>
<tr>
<td>Sport &amp; Wellbeing</td>
<td>Between 1998 and 2003, the Bank granted ongoing exclusive sponsorship for the “Otrar” Basketball Club, while providing financial support for all championships held by the Kazakh National Basketball Federation.</td>
</tr>
<tr>
<td>Support of Government-Run Programs</td>
<td>The Bank supported the implementation of the national program in support of the native language by sponsoring free subscriptions to Kazakh language periodicals for a number of non-profit organizations.</td>
</tr>
<tr>
<td>Community Development</td>
<td>The Bank has provided ongoing support for the needs of the 26 cities it operates in. In 2003 the Bank renovated a historical monument – City Clock, which was idle for the past 10 years. To increase public awareness around the issues of architectural sustainability and local history, the Bank organized an exhibition telling the story of the clock since 1960, and held a public celebration for the grand opening of the newly renovated clock.</td>
</tr>
</tbody>
</table>

A series of steps were taken to address these two core issues. First, a new position of Coordinator of Charitable Programs was created under the auspices of the Department of Public Relations; Gulshat Baimuratova was hired to fill this position. Second, a series of assessments has been organized with Gulshat serving as a lead researcher:

- Internally, bank employees were asked to nominate areas of social activity that should be included in the Bank’s newly designed social agenda. Support of culture
and arts, advancement of education, health and wellness were nominated by the Bank’s employees as ‘high-priority’ areas, and served as blueprints for the programmatic tracks of the newly designed social agenda of the Bank.

- Externally, Gulshat Baimuratova has researched international and regional practices of corporate charitable activity. As a result of this benchmarking process, creation of a charitable foundation organized as an independent entity was recommended as the next step of the Bank’s social and philanthropic engagement.

The Bank requested a thinking partnership from its long-term collaborator, the Eurasia Foundation of Central Asia (EFCA), with a goal of crystallizing the concept and developing structures, policies and procedures for the newly envisioned charity foundation. Andrew Wilson, the EFCA President, was excited to engage in a first local corporate attempt to develop a strategic and systematic approach to community engagement⁵:

“Kazkommertsbank had long been at the forefront of community engagement and corporate social investment in Kazakhstan, and we collaborated before successfully. However, as it is the case with most of Kazakh companies, the Bank’s activity in this domain had a somewhat sporadic nature. So, when they invited us to engage in the development of a new corporate foundation and share our expertise in the area of grant program development and management, we were happy to do so. Eurasia Foundation is one of the largest grantors in the region, and we have acquired substantial knowledge of the nuances of the post-Soviet environment and ways of being.”

The partnership has yielded the desired results, and by the end of spring 2004 the Bank was ready to launch its new venture. In May 2004 Community Charity Foundation “Kus

⁵ Interview with A. Wilson
“Kus Zholy” Community Charity Foundation: The Organization

Founded in 2004, Community Charity Foundation “Kus Zholy” is a non-profit organization chartered by a group of 26 individuals - top executives of the Joint Stock Company “Kazkommertsbank” and some of its affiliates. With 99% of the budget stemming from the Bank’s net income, the Foundation serves as an operator of the community development activities of Kazkommertsbank, and implements its social responsibility strategy. The Foundation’s mission, “To promote the mission and strategic priorities of JSC “Kazkommertsbank” by establishing programs that foster a proactive approach to life, support personal initiative and responsibility, and encourage healthy self-esteem among the citizens of Kazakhstan”, is tightly linked with the mission of Bank, re-developed and re-stated in 2006 as “To assist in development of an economically sound and spiritually rich society in the Republic of Kazakhstan by providing the nation’s best banking and financial services to corporate and individual clients”. As such, Kus Zholy’s mission manifests itself in an operating principle of “equilibrium of tangible long-term impact for Kazakh society and reputational dividends for the Bank”\(^6\). Exhibit 3 illustrates positioning of Kus Zholy Foundation as an advancement from traditional philanthropy to a coherent Corporate Social Responsibility strategy.

Exhibit 3 Kus Zholy as a Manifestation of Kazkommertsbank’s New Business Paradigm

---

\(^6\) Presentation of G. Baimuratova to a business ethics undergraduate class at Kazakh-Turkish University, Almaty, Kazakhstan
Adapted from G. Baimuratova, “Integration of Public Relations, Human Relations, Investor Relations, and Governmental Relations within the Corporate Social Responsibility Strategy of Kazkommertsbank” (2005)

Programs

Kus Zholy operates four programmatic tracks:

- **Track #1 Cultural Capital** – aims at fostering the creative potential of Kazakh citizens, protecting the cultural heritage of the nation, and promotion of Kazakh art domestically and abroad.
• *Track #2 Education* – addresses the declining state of education in the nation by supporting innovative educational projects and skill-development programs for junior scientists.

• *Track #3 Healthy Family* – aims to encourage health and wellness among Kazakh youth, promotes tolerance towards physically and emotionally challenged individuals, and supports self-esteem development among handicapped children.

• *Track #4 Social Initiative* – supports projects that advance the philosophy of corporate social responsibility in Kazakhstan, and unites social initiatives dedicated to the business-in-society arena.

Each programmatic track includes projects that have been proposed by the public via grant applications, as well as projects developed by the Foundation’s Executive Director in collaboration with other employees of the Bank and external partners. Exhibit 4 illustrates one of the projects developed by the Foundation’s team.

*Exhibit 4 Sign Language Dictionary: Partnership in Action*

<table>
<thead>
<tr>
<th>Inspiration</th>
<th>More than 150,000 of Kazakhstan residents are hearing impaired. However, throughout the history of soviet and post-soviet Kazakhstan no dictionary or other educational aid was developed to support the needs of this population. Moreover, most hearing impaired suffer isolation and prejudice, whereby school-age children are placed into special boarding schools, where they grow secluded from the society, seeing their families a few times during a school year.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Innovation</td>
<td>To address the lack of educational aids, and support self-esteem development and social adjustment among hearing impaired children, Kus Zholy has partnered with the Center for Support of Deaf “Umit”, the Diplomats Club of</td>
</tr>
</tbody>
</table>
Kazakhstan, and the ExxonMobile Kazakhstan to develop, publish and distribute the first in the history of the Republic of Kazakhstan sign language dictionary. Published in 2005 in a batch of 3000 books, the dictionary provides much-needed guidance in Kazakh, Russian, and English, thus giving the hearing impaired an opportunity to learn four languages.

Kus Zholy assumed financial responsibility for publication of one-third of the dictionaries, as well as the entire distribution. Taking advantage of its countrywide branch network, the Foundation successfully prevented such problems traditionally associated with educational humanitarian aid in Kazakhstan, such as theft, uneven distribution, and delay. Additionally, the foundation initiated development of a digital version of the dictionary, distributed as a CD and available on the web-sites of Kus Zholy and Kazkommertsbank.

Impact  As a result of the KZT 936,231 (U.S.$ 6955.7) budget project, 34 educational institutions for hearing impaired in 21 cities of Kazakhstan received copies of the dictionary, with total number of books received ranging from 1 to 350 per institution. The project was highlighted in 56 media outlets throughout the country, with the total coverage equivalent to KZT 1,851,460 (U.S.$ 13,755.3). Additionally, the Bank was able to establish and/or further its relationships with city authorities throughout the nation.

While the programs supported by Kus Zholy might look quite ordinary for a corporate foundation, its structure and modes of operation are anything but ordinary. Unlike many of its international counterparts, Kus Zholy Foundation is deeply embedded into the structure and day-to-day functioning of its founding company, Kazkommertsbank. Kus Zholy’s policies and procedures mimic those of the Bank, and it relies heavily on the infrastructure, know-how, and resources of the Bank for its daily activities. The two employees of the Foundation also have full-time positions at the Bank, and all of the programs, events, and projects are executed by a 30-member volunteer committee, comprised entirely of the Bank employees. Moreover, the Bank’s 23-city branch network provides a means for distribution of Kus Zholy’s activities throughout Kazakhstan, which
comes in particularly handy in the absence of any viable public or private nation-wide infrastructure for delivering community development programs to its numerous remote locations.

**Structure**

**Board of Trustees**
Comprised of the top managers of Kazkommertsbank and its affiliates, the Board of Trustees serves as the highest collegial governance entity of the Foundation. The Board provides general guidance for the Foundation, serves as a guarantor of the Foundation’s legal compliance, and elects the Foundation President. The Board also monitors its overall activity, reviews organizational grant applications and makes collegial decisions for acceptance or rejection of an application.

**President**
The President represents the Foundation and its Board at all public engagements, and provides ongoing leadership and management for Foundation’s activities.

**Executive Director**
The Executive Director develops strategic priorities for the fiscal year, designs and implements core programs, and assures proper use of funds. He or she also recruits and coordinates work of an Independent Experts Group, comprised of renowned media, business, culture, arts, education and non-profit leaders, who donate their time to the work of the group.

**Independent Experts Group**
The Group reviews all viable individual grant applications, and makes collegial decisions for acceptance or rejection of an application.
The Committee carries out daily activities, charity events, and special projects of the Foundation, including planning, communication, facilitation, transportation, entertainment, and other tasks associated with specific programs. The self-organizing Committee represents the driving force behind Kus Zholy’s diverse projects, whereby all major tasks are distributed and carried out internally on a volunteer basis.

Departments provide support for the Foundation’s daily activities as prescribed by Kazkommertsbank’s Board of Directors, including accounting, communication, web programming, administrative support, and internal auditing.

**The How-To: Processes, Policies, and Procedures**

Kus Zholy implements its goals and programming aspirations via two distinct processes: a) management of grant programs and b) development of unique projects aimed at filling strategic gaps not addressed by grant-seekers.

**Grant Programs Management**

Policies and procedures for all of Kus Zholy’s grant programs are designed to mimic the established policies and processes of Kazkommertsbank. Gulshat Baimuratova makes a strong case for such a design⁷:

---

⁷ Interview with G. Baimuratova
“From the start we did not want to reinvent the wheel, but rather decided to follow what we already do well. Just as the Bank manages distinct lending programs for mortgages, car loans, and other specific lending products, so does the Foundation by offering specific program tracks complete with specific guidelines and requirements. Just as you shouldn’t fill out an application form for a mortgage when you are trying to buy a car, it wouldn’t be appropriate to fill out an application for a “Cultural Capital” grant when you are proposing a health and wellness project.”

The Foundation uses internal (websites, monthly newsletter, etc) and external (print, web and television) communication avenues to attract grant seekers. Organizations and individuals, including the Bank’s employees, are invited to apply for a grant. Organizations are asked to propose original projects or programs that fit one of the four programmatic tracks of the Foundation, while individuals have less freedom in design, and have the opportunity to choose between two funding mechanisms also framed by the main programmatic tracks: traveling grants and small business skill development grants for individuals with physical challenges. Such a distinction between organizational and individual applicants is meant to assure the most leverage of the Bank’s and Foundation’s social investments believed to be achieved through broad organizational effort, while still providing easy and transparent support for individual efforts aligned with the mission and strategic interests of Kus Zholy and Kazkommertsbank.

All grant applications follow the same process:

1. Applicants fill out a standard form that requests information about the project idea, desired outcomes, proposed budget, and additional funds secured for the project.

2. The Foundation staff assesses the application against the programmatic requirements and guidelines, and in the case of a positive assessment, develops a
project proposal to be reviewed by the Board of Trustees (in the case of an organizational application) or Independent Experts Group (in the case of an individual application).

3. Each project proposal is reviewed collegially by the appropriate entity, with all decisions recorded and archived as meeting minutes:

   a. Members of the Board of Trustees cast their vote in person or by mail via numbered and personalized ballots.

   b. Members of the Independent Experts Group meet in person and deliberate to reach collegial decision.

4. Decisions are announced to the grant seekers, and published on the Foundation’s website, which is also prominently featured at the Bank’s website.

5. Selected projects are implemented in close partnership with and monitored by the Foundation’s coordinator. Travel grants are often dispersed by a direct payment to a travel agency.

6. Upon the completion of a project, overview reports and financial documentation is submitted to the Foundation, where the final report is compiled for the Foundation management, and partially published on the Foundation’s site. Selected projects are highlighted in the Bank’s monthly newsletter, published in print and digital formats.
Self-Grown Projects and Programs

While the grant seekers initiate a wide range of original, impactful, and diverse projects, certain strategic opportunities remain available for the Foundation to act on. Kus Zholy does not have a specific step-by-step process for developing a project idea internally; in contrast, the Foundation team (which is comprised of staff, supporting Kazkommertsbank personnel, the Bank’s volunteer committee, and top management) deliberately creates an environment conducive to the organic emergence of ideas. Additionally, Kus Zholy employees also have full-time positions at Kazkommertsbank, which allows for easy alignment of the Foundation’s priorities and interests with strategies, needs, and resources of the Bank.

Once a team member comes up with an idea, it is brought to a team meeting for further discussion. If the initial idea receives positive response, the Executive Director is charged with development of a project proposal, which then undergoes the same review process as any external organizational application, and gets voted upon by the Board of Trustees. Exhibit 3.3 illustrates such organic emergence of a self-grown project.

Since its inception in 2004, the Foundation has developed a diverse set of self-grown projects, ranging from the advancement of music education in Kazakhstan, to collecting and delivering humanitarian aid to children surviving the terrorist act in Beslan, Russian Federation, to providing ongoing support for stellar students with hearing impairment. In many of these projects, partnering with local and international organizations was at the core of successful project implementation.
Inspiration  Media as a sector of Kazakh society has grown out of the Soviet communication infrastructure. As propaganda, censorship, and fact tailoring infused Soviet reporting, Kazakhstan’s media sector has been facing ethics and standards issues for all 15 years of the country’s existence. In 2004 one of the Kazakh prominent weekly newspapers, “Express K”, published an article reporting that Kazkommertsbank was on the verge of bankruptcy. Kazkommertsbank took the issue to the court, and in 2005 was awarded KZT 5,000,000 (U.S.$ 38,069) as a compensation for damages done to the Bank’s brand and reputation.

Innovation  Shortly after the court’s decision, Larisa Kokovinez, Director of the Department of Public Relations at Kazkommertsbank, came up with an idea of investing all awarded money for a journalism ethics course. The idea was developed into a coherent proposal for a summer financial journalism school, and approved by the Foundation’s Board of Trustees. Run as an in-residence program, “the school” was organized by Kus Zholy in partnership with Kazakhstan Press Club, and taught by professionals of the British Reuters Foundation.

Impact  15 practicing media specialists from Kazakhstan’s most prominent media outlets took part in a free week-long program, run May 22-26, 2006. In addition to theoretical knowledge, the journalists from seven cities had an opportunity to practice the newly acquired skills during exclusive interviews and dialogues with leaders of the nation’s financial institutions and professional organizations. The event was covered in several media outlets, featuring Kazkommertsbank and Kus Zholy in the effort to address the issues of ethics and quality in media reporting.

---

Engaging with Others

Collaboration has been at the cornerstone of Kus Zholy operations from its inception. Among the Foundation’s most prominent collaborators are:

**The Eurasia Foundation of Central Asia (EFCA)**

Kus Zholy’s policies and procedures grew out of a collaboration between Kazkommertsbank and the Eurasia Foundation of Central Asia, whereby Kus Zholy itself was partially a product of this long-term partnership. The two organizations remain in close relationship, with one of the Kazkommertsbank’s Directors serving on the Board of Trustees of EFCA. At the invitation of EFCA, Kus Zholy’s representatives share their experience and expertise in various projects and trainings aimed at introducing the concepts and practice of Corporate Social Responsibility within the Central Asian region.

**Association of Non-Profit Organizations “Zhalgas-Counterpart”**

Immediately following the launch of Kus Zholy, another formal partnership was made when the Foundation signed an agreement with the Association of Non-Profit Organizations, “Zhalgas Counterpart”. Zhalgas Counterpart has been serving as a liaison between government, non-profit and for-profit sectors since 2000, and was chosen as an operator of the Travel Grants Program of Kus Zholy. Furthermore, the partners provide ongoing resources and training to non-profit organizations.
interested in successful collaboration with for-profit sector.

In 2005 Kazkommertsbank became the first Kazakhstan company-signatory of the U.N. Global Compact; and the Kus Zholy Charity Foundation has been serving as a conduit of this relationship. The partners organized an extensive public awareness campaign, which included a press conference, distribution of printed materials, and other resources regarding the work of the U.N. Global Compact in Kazakhstan. In 2006 the Foundation developed a comprehensive plan for the advancement of regional programs within the framework of the Global Compact. Within this plan, Kus Zholy has designed a new mechanism of partnership with local city authorities, aimed at addressing corruption in the region. See Exhibit 5 for an illustration of the Bank’s efforts in this domain.

During the first two years of operation, Kus Zholy has also engaged with the Kazakhstan Press Club, the Diplomat Club of Kazakhstan, other companies, local and state authorities, while also engaging in cross-industry and cross-sector collaborations such as the International Conference titled “Corporate Social Responsibility: A Model for Kazakhstan” and Social Projects Fair 2005.
Accountability and Reporting

Accountability procedures of Kus Zholy follow the guidelines of Kazkommertsbank and adhere to strict internal guidelines for financial and non-financial reporting. At the core of Kus Zholy’s philosophy lies the principle of “equilibrium of tangible long-term impact for Kazakhstan society and reputational dividends for the Bank”\(^9\). Thus, the Foundation has developed reporting mechanisms for both social and business impacts of Kus Zholy activity.

On the social side, all grant recipients are required to provide detailed reports on the quality of impacts of the dispersed funds, accompanied by original receipts and invoices.

\textit{Exhibit 5 The How-To of Anti-Corruption: Implementing the United Nations Global Compact}\(^10\)

\(^9\) Presentation of G. Baimuratova to a business ethics undergraduate class at Kazakh-Turkish University, Almaty, Kazakhstan

Inspiration In 2005 Kazkommertsbank became the first locally owned company to become a signatory of the United Nations Global Compact, a set of voluntary principles in labor, human rights, environment, and anti-corruption supported by over 2500 companies from all parts of the world. The Bank has long-standing achievements in the areas of human rights protection and fair labor practices, and has low ecological footprint. However, contributing to anti-corruption represented an area of significant opportunity, as Kazakhstan has been consistently ranked as the most corrupt country of the world. The Bank had traditionally partnered at the federal level, rarely received reports on the use of funds contributed via Kus Zholy to governmental agencies at the level of ministries, and got no reputational benefits from these efforts as almost no information is available to the general public on funds received from corporate partners.

Innovation As part of its U.N. Global Compact implementation efforts, Kus Zholy has developed a new protocol for partnering with governmental agencies. The protocol suggests a shift from partnering at the headquarter level with federal institutions to partnering at the Bank branch level with local city authorities to increase transparency and capitalize on closeness and contextual understanding. The protocol includes the completion of a mandatory yearly contract with each governmental entity interested in the Bank’s contribution to local community development, which includes close scrutiny of financial reporting, collaborative decision-making, and ongoing communication with the public via press conferences and other media efforts.

Impact The U. N. Global Compact Implementation Program was developed and approved in early 2006; and the first Memorandum of Cooperation with a local city authority was signed in May 2006. Serving as a pilot for the remaining 19 cities included in the Program, the first Memorandum allowed extracting useful lessons and working out details for a rather novel transparent mode of interaction with governmental authorities.
From the business side, Kus Zholy has developed a one-figure metric to measure “reputational dividends” accrued as a result of a particular activity. According to the industry standard, all positive media coverage associated with a particular private organization is not released without a charge to the private organization; however, Kus Zholy has committed to stop this unhealthy practice. The foundation generally does not pay for articles and TV segments showcasing its activity, but tracks all media releases to measure brand building impact. To calculate the metric, Kus Zholy estimates the market value of free media coverage, and uses the sum total as a measurement of Kus Zholy’s business benefit. See Exhibit 6 for an example of the tracking mechanism.

Exhibit 6 Business Impact Measurement: Excerpt from a Standard Report Form Tracking “Reputational Dividends” Accrued as a Result of Kus Zholy Activity

<table>
<thead>
<tr>
<th>#</th>
<th>Media Outlet</th>
<th>Date and Time of Release</th>
<th>Type of Information</th>
<th>Duration (min)</th>
<th>Equivalent Market Value of Media Coverage, If Paid For</th>
<th>Audience Reached</th>
<th>Market Reached</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>“The First Sign Language Dictionary is Published in Kazakhstan”</td>
<td>161 cm²</td>
<td>KZT 88,872</td>
<td>17,100</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Panorama</td>
<td>06.06.05</td>
<td>Evening News Segment</td>
<td>1.5 mins</td>
<td>KZT 605,700</td>
<td>Nationwide</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>Khabar Evening News</td>
<td>12.09.05, 9 pm</td>
<td>“Free of Charge – for Disabled Children”</td>
<td>202.5 cm²</td>
<td>KZT 22,275</td>
<td>7,200</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Kyzilordinskie Vesti</td>
<td>05.09.05</td>
<td>“Boarding School is Looking Forward the Future”</td>
<td>240 cm²</td>
<td>KZT 12,000</td>
<td>5,000</td>
<td></td>
</tr>
</tbody>
</table>

Almaty

Kyzil-Orda

Uralsk

68

The Foundation’s staff is required to compile information submitted by the grantees into comprehensive reports, providing qualitative and quantitative evidence of the programs’ effectiveness within both, social and business domains. Two forms of audit assure accuracy of the reporting mechanisms:

- Kazkommertsbank’s Department of Internal Audit provides extensive review of the Foundation’s activities, documentation policies, and compiled reports. The audit is complete with a set of recommendations on improvements and corrections to be made by Kus Zholy team.

- Deloitte and Touche provides an independent audit of the financial report of the Foundation, and provides an overall audit for the Annual Report of Kazkommertsbank.

The Annual Report of Kazkommertsbank, which, since 2003, includes a chapter on social activities and engagement of the Bank, assures transparent and direct communications with the Bank’s stakeholders, including clients, investors, employees, grantees, partners, government, and the public at large.
The ‘So What’: Impacts of Kus Zholy’s First Two Years of Operation

Since its inception, “Kus Zholy” Community Charity Foundation has taken on the role of a liaison between Kazkommertsbank and its national and international stakeholders. As such, Kus Zholy created substantial impact for both sides: the company and the community it operates within – and improved the relationship between the two sides in the meantime. Gulshat Baimuratova explains:

“Some of the projects we do truly shift the nature of relationships between business and the rest of society. In the local communities Kazkommertsbank is often perceived as a scary formal structure, and our work with veterans of the World War 2 showed that this perception can be changed. The projects allow us to develop real human relationships – when the entire line up of the Banks top management comes to veterans’ event to have real conversations, make real connections – then the veterans in turn were surprised that there are real people here, not just some dry money-counting machine-like beings. “

Social Benefits

Between May 2004 and December 2005, Kus Zholy has invested KZT 162.5 million (U.S.$ 1.3 million) into various grant programs and self-grown projects. Specific results have been achieved within each of the four programmatic tracts of the Foundation:

Cultural Capital Following the collapse of the USSR, culture and arts have ‘fallen through the cracks’ of the society striving to re-build its systems and infrastructures. Realizing this situation, Kus Zholy has placed protection of culture and historical heritage of Kazakhstan and its diverse population at the forefront of its strategy. Regarding arts and
history as essential to a healthy society, the Foundation produced numerous programs aimed at supporting this domain. Kus Zholy has developed programs that invest in long-term restoration of the cultural institutions of Kazakhstan, including its work with the nation’s largest music academy, and its efforts on digitizing the archives of Kazakhstan’s most regarded public library.

**Education**

Tightly connected with other programmatic tracks, the educational programs of Kus Zholy are designed to create long-term impact for Kazakh society. The projects include scholarship programs for undergraduates, the creation of Sunday School at the Kazakhstan Embassy in Russia, and the publication of the first English-Kazakh-Russian Sign Language Dictionary.

**Healthy Family**

Kus Zholy has taken a proactive stance towards the societal stigma surrounding people with disabilities. The Foundation has created multiple programs aimed at advancing public tolerance for disability, while, at the same time, promoting self-esteem and perseverance among disabled. Kus Zholy only accepts proposals and develops projects that aim at healthy adjustment, such as stipends for scholastically successful hearing-impaired children or grants for disabled adults trying to develop their hobby into a potential business opportunity.
Social Initiative

The Foundation has engaged in various programs and initiatives aimed at advancing the positive role of business in society. Kus Zholy has presented its case for developing a coherent Corporate Social Responsibility strategy at various conferences, training programs, classrooms, and educational fairs. The Foundation has been participating in CSR efforts of the Eurasia Foundation of Central Asia, and served as a ‘poster child’ for United Nations Global Compact, which has seen extraordinary increase in numbers of Kazakhstan signatories for the Compact since Kazkommertsbank pioneering step in 2005.

The words of Aigerim Muhamediyarova, Commercial Assistant at the Almaty Branch of Kazkommertsbank, and Kus Zholy volunteer, summarize best the overall social impact of “Kus Zholy” work:

“At the time that the Volunteer Committee was created, a lot of warmth was accumulated within the company, warmth that needed to be channeled. For about 15 years now Kazkommertsbank has allowed thousands of young driven professionals to stand on their own feet – all by developing skills, building relationships, and earning a reliable income. We were making good money, had stability and respect in the society, but we did not forget where we came from. So, the Foundation and the committee is an opportunity to direct our efforts, but not in a one-time material-type support manner, but rather do something that deals with the root of the issue in a long-term fashion. In other words, what “Kus Zholy” allows us to do is to extend the great gifts we received to the general public, so that others can also get a break, learn how to succeed, and, with time, stand up, and be ok.”

Business Benefit
### Media Coverage
Since its inception, Kus Zholy has been measuring the business benefit realized through free media coverage. The Foundation estimates that its monthly average media coverage associated with projects and programs is equivalent of KZT 2 million (U.S.$16,000), which corresponds with an average yearly benefit of KZT 24 million (U.S.$192,000).

### Peer Reputation
The Foundation’s media coverage and peer-to-peer interactions via conferences and other gatherings brought about great regard from colleagues at fellow local and international companies. For instance, the Eurasia Foundation of Central Asia has received a significant number of inquiries from local companies requesting assistance with CSR strategy development; the companies consistently reference Kazkommertsbank and benefits for both, the company and the society at large, realized through the work of Kus Zholy Foundation.

### Employee Engagement
Kus Zholy’s largest programs and events are organized and executed by the Volunteer Committee comprised entirely of Kazkommertsbank’s employees. From planning to execution, the 30 Committee members take care of all tasks from driving and cleaning, to administrating and entertaining. Committee members come from different functions and branches of the Bank, but all share the same values and aspirations that bring them to Kus Zholy. The members consistently express deep appreciation for Kus Zholy as a mechanism
for channeling their personal values, as well as the values of the company. Many of the volunteers suggest that their loyalty, productivity, and engagement have increased since the launch of the Committee, and express gratitude for Kazkommertsbank’s social contributions via poems and other means.

While media coverage and brand reputation remain the most important – and measured – evidence of “Kus Zholy” business impact, understanding of the business value of employee engagement represent a less visible, but no less significant result of this work. Gulshat Baimuratova explains:

“In terms of the business value of “Kus Zholy” volunteer committee, the establishment of committee and its many accomplishments have demonstrated, for the first time, that the employees are indeed the bearers of the Banks’ brand, that they can help create in a very tangible way the positive image of the bank as an innovative, contributing, and trust-worthy institution. The Foundation is barely two years old, but since the establishment of the Volunteer Committee, we have been able to disseminate information about the Foundation very rapidly without any formal communications plans and strategies – so the committee became the translator of the image and mission of the Bank and the Foundation.”

Lessons Learned

A number of factors contributed to the success of Kuz Zholy as a core element of Kazkommertsbank’s integrated Corporate Social Responsibility strategy; while significant opportunities to increase the mutual benefit for business and society remain for the company to take advantage of.
As Kus Zholy was designed and set up, Kazkommertsbank made a number of choices that assure the success of new venture. Among the most noticeable internal success factors are:

**Commitment of The Top Management**

The idea of a coherent Corporate Social Responsibility strategy emerged at the executive level, and the Bank’s top managers remain committed to its projects, programs, and events. Kus Zholy is presided over by the legend of the Kazakhstan financial industry, Daulet Sembaev, who is widely regarded as a father of Kazakh currency and banking infrastructure. The Kus Zholy core staff continues to enjoy guidance and oversight of the Bank’s top management via the Board of Trustees, which collegially makes all strategic decisions.

**Inspired Leadership**

While the Foundation’s first Executive Director, Gulshat Baimuratova, shies away from big statements of idealism and personal values, her deep understanding of the CSR philosophy and aspirations manifest an inspired and inspiring leadership style. Gulshat’s vision for Kus Zholy is to move beyond the role of an operator of the Bank’s social programs to a role of an active architect of Kazkommertsbank development strategy; and she has
Integration Within the Company

The Foundation holds a status of a legally separate entity, but its daily operations is distributed throughout the Bank, whereby all tasks, decisions, and functions are completely integrated within the company. Such tight connection between the two organizations allow for alignment of strategic priorities and maximization of efficiency in the use of resources and expertise. Armed with the for-profit expertise of its staff, Board of Trustees, and the essential employee volunteer committee, Kus Zholy functions at a level of effectiveness and accountability unprecedented for the non-profit sector of the newly independent Kazakhstan.

Strategic Partnerships

Partnership remains a cornerstone of the Foundation, whereby the very structure, policies and procedures of Kus Zholy grew out of a strategic partnership with the Eurasia Foundation of Central Asia. The Foundation runs most of its programs in partnership with organizations with proven expertise in a related area; but remains highly selective and purposeful in partnering due to low degrees of reliability prevalent in the post-USSR environment.

Investment Into Metrics and Reporting

Kazkommertsbank was the first Kazakh company to provide audited social investment information as a part of its annual report. Following this tradition of systematic reporting, Kus Zholy has been inventing means and measures to track the business benefits laid an extensive foundation for the realization of this vision.
generated by its programs and projects since its inception. This commitment to metrics and reporting mechanisms assured a disciplined shift from a philanthropic orientation to a model that yields mutual benefit for business and society at large. Moreover, as Gulshat Baimuratova suggests, the newly invented metrics “speak the language of the Bank” and facilitate the overall acceptance of the Foundation as a legitimate affiliate of Kazkommertsbank.

External Success Factors and Life-Giving Forces

While much of the success of Kus Zholy was driven from the inside out, a few external factors energized the effort. Among them are:
As one of the fifteen post-soviet countries, Kazakhstan lost its entire social development infrastructure during the collapse of the USSR. With government failing to address the most pressing social needs, such as education or health care, the non-profit sector sprouted within a year of the collapse. However, in most cases these early non-profit organizations served as cover up for scamming government, international organizations, businesses, and general public of money and other resources. It became a devastating norm for educational and humanitarian aid to be stolen and sold for profit, with all distribution documentation defrauded. In the face of such immense need, Kazkommertsbank was heavily pressured to engage in community development, receiving thousands of monetary requests each year.

In the recent years Corporate Social Responsibility became a staple of good management practice and reputation worldwide. While the Kazkommertsbank has focused on performing in Kazakhstan and Central Asia, its success is directly linked to its international reputation. The dependence on international reputation has increased in light of the Bank’s effort to offer international investment options in 2006, as sound Corporate Social Responsibility was expected from a leading Bank in the region.
In two short years, Kus Zholy has achieved the status of the Corporate Social Responsibility leader in the nation, and its future offers significant opportunities for lasting business and social benefits.

**Future Opportunities**

In two short years, Kus Zholy has achieved the status of the Corporate Social Responsibility leader in the nation, and its future offers significant opportunities for lasting business and social benefits.

**Deeper Integration of Benefits**

While the Foundation’s operation is completely integrated into the structure of its parent organization, Kazkommertsbank, its programs and projects are rarely connected with the products and services offered by the Bank. Meanwhile, significant opportunities exist for turning society’s most pressing issues, such as poverty and health care, into thriving business opportunities. A financial institution worldwide has taken advantage of such opportunities via such tested mechanisms as micro-finance, charity-oriented credit cards, and community-oriented real estate. Deepening the level of mutuality between the Bank and the Foundation will assure sustainable success of Kazkommertsbank’s community engagement.

**Increased Role in Developing Corporate Social Responsibility Culture in**

To date, Kus Zholy has perfected the art of partnering with the non-profit sector. However, more opportunities exist for engaging with the for-profit sector with the goal of advancing the philosophy and culture of Corporate Social Responsibility (CSR) and mutual benefit in Kazakhstan and Central Asia. While most
Kazakhstan and Central Asia of the business community, governmental officials, and public at large view CSR as organized philanthropy, Kazkommertsbank is in a perfect position to advance public awareness towards a model of mutual benefit and sustainable development, rather than charity.
CHAPTER 4

Case Study B: Complex Socio-Economic Development in the Regions of SUAL Group Presence

“The standard approaches to socio-economic development in Russia are about blaming everyone else – the mayor, the government, the president – anybody but oneself. It’s been 15 years, but we are still where we were. Moses had to take time for two generations to pass before mentality was changed, so it looks like we will also have to wait for generations for this passivity and blame game to pass. But if there is anything I know, is that the best way to change this mentality is not through round tables, forums, and symposiums, but through hands-on work around specific projects, and as you work on projects, people change.”

Visiliy Kiselev, Vice President of SUAL Group

Inspiration: The Story Behind the Story

It’s been a long-lasting tradition for large manufacturing companies of Russia to take full responsibility for sustaining communities they operate in. This tradition was somewhat justified during the years of administrative economy, whereby a state-owned enterprise would act as an agent of state to deliver services such as education, urban infrastructure, healthcare, and beyond. The collapse of the USSR brought about privatization, and with that complete elimination of state support, but little change in expectations for local community responsibilities followed. The general public stayed cautious and ambivalent of the new concepts of market economy and private enterprise, while the government faced an economic crisis with crumbling resources available for local community needs.
As a result, by 2005, Russian companies are spending anywhere between 8.2% and 30.6% of pre-tax income on expenses associated with this domain\(^\text{11}\), generally regarded as “social investments” in regional research and press. Visiliy Kiselev, Vice President of SUAL Group, speaks pointedly about this phenomenon:

“Historically, Soviet manufacturers had much larger role in lives of local communities than their Western counterparts. The entire cities had been brought up under names of factories, whereby an enterprise would carry such assets as apartment buildings, stadiums, museums, farms, clinics, and much more. So, while the Western companies have began moving from a “refined”, purely economic business model towards higher social involvement, our post-Soviet companies are moving from a model of extreme involvement and being responsible for everything possible, towards a model of optimal engagement.”

Like many of its counterparts, Siberian Ural Aluminum Company (SUAL) has faced extreme expectations for local community sustenance since its inception in 1996. As the enterprise grew into a holding of 20 companies spanning over 9 rural regions in Russia and Ukraine, its expenses in the social domain increased as well. Now, one of the ten largest aluminum companies of the world, SUAL Group spends between US $20 and $23 million on expenses related to culture and arts, health and wellness, education and summer camps, and other social services for local communities. With the level of ‘social’ expenses compatible to that of ALCOA’s, the number one aluminum company in the world, SUAL Group is one of Russia’s leading companies in the domains of corporate citizenship, ethics, and corporate governance standards\(^\text{12}\). However, the company’s commitment to positive and meaningful impact on local communities demands programs


\(^{12}\) Interviews with Brook Horowitz, Russia Partnership for Responsible Business Practices, and Ekaterina Ivanova, Russian Managers Association.
and solutions that assure economic and social self-reliance, a proactive approach to development, and sustainable independence from any single economic institution. Kiselev explains:

“The standard approaches to socio-economic development in Russia are about blaming everyone else – the mayor, the government, the president – anybody but oneself. It’s been 15 years, but we are still where we were. Moses had to take time for two generations to pass before mentality was changed, so it looks like we will also have to wait for generations for this passivity and blame game to pass. But if there is anything I know, is that the best way to change this mentality is not through round tables, forums, and symposiums, but through hands-on work around specific projects, and as you work on projects, people change.”

Recognizing that excessive social expenses can jeopardize long-term success for both the company and local communities, in 2001 SUAL Holding launched a partnership effort that was unprecedented for the former USSR. First, the company signed partnership agreements between local plants and local municipal authorities to systematize development efforts in each region of company’s presence. Then, SUAL brought in non-profit organizations to co-design and implement comprehensive socio-economic development programs customized for each region of company presence. As a result, the “Complex Socio-Economic Development for Territories of SUAL Group Presence” program was born.

**Innovation: New Horizons in Cross-Boundary Partnerships**

An innovative partnering mechanism lies at the foundation of the “Complex Socio-Economic Development for Territories of SUAL Group Presence” program. The “Social Partnership Agreement”, signed between local plants and local municipal authorities of each region of the company presence, outlines unified principles for meeting local
community development needs via a collaborative parity relationship. As the first of its kind in Russia, the Agreement has fostered a transformation in previously chaotic philanthropic efforts into a set of cohesive social investment plans. Since its launch in 2001, it has become one of the best-known community development initiatives in the country.\textsuperscript{13}

The principles of the Social Partnership Agreement include:

- Organizing collaborative community development efforts in each region of SUAL presence aimed at addressing social needs of SUAL’s employees, employee families and local residents of municipalities;

- Pursuing unified policies aimed at ensuring positive development for the SUAL Group enterprises and local municipalities;

- Using economic, organizational, technological and social mechanisms to reach objectives in community development;

- Attracting additional financial resources from third parties interested in perusing opportunities related to social investments in regions of SUAL presence.

Under the Agreement, SUAL has been running a number of community development initiatives, ranging from art and culture support to wellness programs to environmental stewardship. All initiatives are overseen by the Coordinating Council for Social Partnership, comprised of the heads of local government agencies, SUAL executives, and directors of its local facilities. The Agreement provided a platform for dialogue and

\textsuperscript{13} Interviews with Brook Horowitz, Russia Partnership for Responsible Business Practices, Irina Lapidus, Portfolio Manager, Department of Social Policy and Business Development, The New Eurasia Foundation, and Ekaterina Ivanova, Russian Managers Association.
collaboration, resulting in the emergence of new ideas to unify and scale up these initiatives into a cohesive effort for sustainable community development. After intense month of deliberation, “Complex Socio-Economic Development for Territories of SUAL Group Presence” was created.

Run in equal partnership with the United States Agency for International Development (USAID), and facilitated by New Eurasia Foundation, one of the strongest non-profit organizations in Russia, “Complex Socio-Economic Development for Territories of SUAL Group Presence” Program was launched in 2004 in 3 pilot municipalities. Pilot sites Nadvoitsy (Segezhsky District, Republic of Karelia), Kamensk-Uralsk (Sverdlovsk Region), and Shelehov (Irkutsk Region) were selected to represent variance in size, status, and socio-economic conditions existing in the 20 regions of SUAL operation, with the overall goals of the program including:

- Strengthening the social and economic environment of local communities;
- Increasing effectiveness of local municipal services;
- Supporting and strengthening local small and medium-sized enterprises (SMEs);
- Engaging all stakeholders in the process of public dialogue and problem-solving and enhancing local civic engagement;
- Increasing partnership capacity in the region, including common language, principles of engagement, and common goals;
- Establishing and implementing effective mechanisms for raising and using local charitable resources;
• Developing sustainable mechanisms of promotion of health, wellness, and environmental restoration;

• Integrating principles of the free market into local city economies, and

• Decreasing SUAL’s financial and administrative burden related to public services.

The program addresses major opportunities for social and economic development present in each community – including fiscal reform, small and medium enterprise development, public health advancement, environment restoration, urban infrastructure optimization, civic society engagement, and education system enhancement. Table 6 offers an overview of the program components.

*Table 6 Complex Socio-Economic Development for Territories of SUAL Holding Presence: Program Components*14

<table>
<thead>
<tr>
<th>Opportunity</th>
<th>Program Component</th>
<th>Key Partners</th>
</tr>
</thead>
<tbody>
<tr>
<td>Optimization of municipal operations, improving fiscal policies, and enhancing the quality of public services</td>
<td>Municipal Management and Finances</td>
<td>Center for Fiscal Policy (CFP)</td>
</tr>
<tr>
<td>Strengthening local economies and increasing economic independence from large manufacturing companies</td>
<td>Small-Medium Enterprise Development</td>
<td>The New Eurasia Foundation (FNE)</td>
</tr>
<tr>
<td>Increasing civic engagement and decreasing dependency attitudes in the general public</td>
<td>Civic Action Development</td>
<td>Siberian Civic Initiative Support Center (SCISC)</td>
</tr>
<tr>
<td>Developing a culture of generosity and creating mechanisms for</td>
<td>Effective Accumulation and Management of</td>
<td>Charities Aid Foundation – Russia</td>
</tr>
</tbody>
</table>

---

14 Interviews with Olga Fedoseeva, Head, Federal and Local Authorities Interaction Department, SUAL Group, and Sergey Martyshenko, Head, Analytic and Project Division, Federal and Local Authorities Interaction Department, SUAL Group.
Because the eight program components address a set of deeply interdependent issues and needs, innovative collaborative relationships have been developed between the non-profit partners to assure most efficient and synergetic approach to program implementation. Olga Fedoseeva, Head of SUAL’s Federal and Local Authorities Interaction Department, explains:

“We took on an ambitious agenda, and it was absolutely clear from the start that we cannot do it alone. We are a for-profit venture, and our core expertise is in the areas of manufacturing and entrepreneurship, not education, health, or ecology. So, it was only natural to seek involvement from organizations with proven track records in each respective domain of the Program. What, in turn, made us appealing as a potential partner, was the systemic and systematic approach to social development. Unlike the majority of Russian business, which takes on an easy route of writing
checks in response to letters of request, SUAL made a commitment to a mid- and long-term approach of strategy, deliberation, and effectiveness. An when you show solid positive effect of your work, it allows you to attract and unite the resources of other organizations dedicated to the field of sustainable social development.”

The Know-How: SUAL Partnering Mechanisms

The complexity of the program required careful crafting of components and mechanisms used for its implementation. Specific choices have been made by the two conveners of the program – SUAL Group and USAID – to assure successful design of an atypical partnership model:

- Independent contractual mechanisms have been used for each of the party engaged with the project:
  - Engagement of local municipal authorities assured via existing Social Partnerships Agreements;
  - Partnership with USAID has been organized via a memorandum of understanding, signed in 2004;
  - Additional contractual agreements with each partner have been developed throughout the pilot phase of the program.

- The conveners developed vision, goals, overall structure, and core components of the program. A 3-year pilot phase was designed to test core assumptions and components of the long-term program.

- Each distinct program component has been matched with a specific non-governmental organization (NGO) possessing exceptional skills and expertise in a relevant for the component domain. A total of 8 additional NGOs were contracted
as experts participating in the program implementation; each expert was selected for exceptional expertise and leadership in specific field of action.

- Three coordinating mechanisms were put in place to assure communication and foster collaboration between participating NGOs:

  - The program is run by two co-directors representing each of the conveners – SUAL Group and USAID. The directors oversee the program in its entirety, providing adjustments and corrections in the process to insure higher results and better fit for specific needs and contexts. This arrangement allows for flexibility necessary to respond to changing environments, emergent opportunities, and unexpected results.

  - At the headquarters level, the New Eurasia Foundation has been serving as a communication facilitator for the overall project. Each expert organization provides monthly plans, which are distributed to all participating experts. The plans are examined for potential synergies and redundancies, whereby combined efforts are facilitated where possible.

  - At the local community level, coordinating groups have been created to represent community stakeholders, such as government, local factory representatives, local civic organizations, citizens, and other interested parties.

- A unifying resource website was created for all participants and general public, available on the New Eurasia Foundation website. The site provides a program overview, yearly plans, media reports, and selected project results.
At the Core: Program Tools and Techniques

As the partnership infrastructure brought together diverse expertise and resources, a wide range of tools and techniques were selected for implementation of each of the eight program components.

Extensive research was undertaken as a first step in the program, and has become an engine for developing and improving specific program features. The partners often use services of multiple organizations to survey, review, or evaluate a specific domain from different angles. Pilot phase evaluation, for instance, were provided by two independent organizations – a non-profit “Agency for Social Information”, and a for-profit “Business Process” consultancy.

While research results have suggested particular avenues for realizing specific opportunities for improvement, legislative reforms have also been providing legal frameworks for action. The “Social Partnership Agreements”, signed with municipalities of each pilot city, allowed the program conveners to work closely with the government to assure constructive dialogue-based additions to the local legislature. Vasily Kiselev, Vice-President of SUAL Group, explains:

“This project is very complex, and everyone understood it cannot be accomplished by the company on its own – we are simply not designed for this kind of work. It is impossible to make the local governmental authorities effective if they don’t have an interest in it; and it is impossible to achieve progress if there is no communication between the different partners. I think what made it work is that we all were genuinely interested in the project – it was simply exciting. Also, the courage to do this stemmed from not knowing the level of complexity – there was nobody to ask for help, nobody who made it work before us.”
Different sets of tools have been utilized for each unique area of opportunity, such as SME development, ecological restoration, or fiscal reform. Comprehensive educational programs combined theoretical and practical training to fill in knowledge gaps and introduce new concepts to municipal officials, local civic leaders, SME owners, and other members of local communities. Local legislature reforms fostered the embedding of long-term systems and mechanisms for effective public collaborations. Local fiscal reforms assured more effective use of government resources. Test projects and pilot collaborations facilitated development of new models of multi-stakeholder engagement. Start-up support programs provided resources for setting up new for-profit and non-profit organizations in each region. Competitive grant programs provided new channels for igniting community voice and action. Urban infrastructure improvements addressed the urgent utility needs of local communities in a cost-efficient way. Health screening and treatment programs offered medical attention to most pressing health issues. New curriculum and extra-curricular activities introduced economics and management education at the secondary school level. Ongoing consulting services provided quick access to independent analysis and recommendation.

Coordination of these often simultaneous activities became the key to success of the Program as a whole. Irina Lapidus, Portfolio Manager at the Department of Social Policy and Business Development, The New Eurasia Foundation, and SUAL-USAID program facilitator, explains:

“While the New Eurasia Foundation has had experiences of collaborating with private enterprises in the area of social development, the Complex Socio-Economic Development Program was by far our most comprehensive and demanding project. The number of partners involved and events managed made it particularly tricky. So, we made it easier by creating one unified monthly plan of all events and activities taken place in
all regions. This allowed us to coordinate and connect the experts that were working in the related domains: for example, we have developed close relationships and common events or projects between the Charities Aids Foundation-Russia and Siberian Civic Initiative Support Center, as both expert organizations work on increasing the engagement of local communities in the process of accumulation and distribution of local philanthropic resources.”

Mid-term strategic planning for socio-economic development of a community has been appointed as a means for unifying all efforts and components of the program. Olga Fedoseeva, Head of SUAL’s Federal and Local Authorities Interaction Department, and program co-director, clarifies:

“At the time we have started, any concept of strategic or systematic planning for local community development was virtually absent. So, considering that every program component and element would produce results and bring about ‘lessons learned’ with strategic implications, it came natural that all work would come together via a comprehensive systematic multi-year development plan. Rooted in community dialogue, and extracted from the pilot efforts, such a plan would evoke strategic thinking and mindful decision-making.”

Exhibit 7 provides an overview of tools and techniques used for program implementation.
Exhibit 7

Program Tools and Techniques

15 Interviews with Olga Fedoseeva, Head, Federal and Local Authorities Interaction Department, SUAL Group, and Sergey Martyshenko, Head, Analytic and Project Division, Federal and Local Authorities Interaction Department, SUAL Group.
Impact: Mutual Benefits for Business and Society

The “Complex Socio-Economic Development in the Regions of SUAL Group Presence” program brought about a number of tangible results for the three pilot cities, and scaling up plans are now in place to include other municipalities. While the program has created distinct benefits for both, the company and the society, the nature of the project allowed for true mutuality and synergy of benefit. SUAL Group serves as the primary employer in each region; thus better urban infrastructure, healthcare, education, and economy assures more stable and comfortable environment for its employees and their families.

Social Benefits

A total of $3.0 million has been spent on various initiatives and elements of the program’s pilot phase. A small sample of results, bellow, illustrates some of the program’s specific impacts which were aimed to bring about short-, medium-, and long-term socio-economic development for each of the pilot municipalities.

Municipal Management & Finances

Independent experts from the Center for Fiscal Policy provided comprehensive assessment and analysis of local municipal expenses and responsibilities as provided by the 2006 legislature. The analysis yielded recommendations for increasing budget effectiveness, and set the foundation for introducing mid-term fiscal planning for each of the three pilot cities.

Small-Medium Enterprise Development

Various educational resources and exhibitions have been created in collaboration with local municipal authorities to provide easy step-by-step instructions for starting and advancing a small business.
develop a competitive supply program aimed at re-adjusting the supply chain to focus on local SMEs. UAZ-SUAL and Sinar Pipe Factory in Kamensk-Uralsk, IrkAZ-SUAL and Shelehom Cable Factory in Shelehom, and NAZ-SUAL in Segezha have committed to participating in pilot supply competitions starting spring 2006.

Additionally, development of a geo-informational system has been agreed upon in Kamensk-Uralsky. The system aims to improve policy creation and decision making process by insuring comprehensive analysis of the local small business sector and infrastructure for its’ development.

Civic Action

Training programs and seminars allowed for the development and testing of new models for increasing civic engagement and NGO activity, each model tailored to the specific conditions of each pilot community. Among them are:

1. The introduction of a public engagement campaign has been introduced as a way of attracting time and resources of local residents to address local urban improvement needs. The “Spring Kindness Week” campaign run in all three sites brought together 6,265 participants to build bus stops, clean
and fix street infrastructure, and more, with the total expenses of RR 90,000 ($3,460 USD), and a total economic impact of the week equaling to RR 1,349,585 ($51,900 USD).

2. Competitive mini-grant programs has been launched to increase proactiveness and initiative among local residents to implement initiatives of highest priority to the local communities. About 30 projects have been selected and implemented in 2005 and 2006, ranging from playground construction, to animal therapy for orphans, to home healthcare for veterans, and more. The total SUAL-USAID expenses spent on that part of the program activities came to RR 90,000 ($3,460), while the additionally was attracted RR 186,500 ($7,170) from other local parties.

Effective Resources

The establishment of a new community foundation in each of the pilot municipalities was selected as a means of assuring collaborative transparent method for accumulating and managing local philanthropic resources.

Accumulation & Management of Local Philanthropic Resources

The Local Community Foundation was established in Shelekhov in 2005; sponsored by individuals. In 2006, the Foundation manages a budget of RR 8.0 million ($300,000).

In Nadvoitsky, the small size of the community (10,500 residents) resulted in a different form for a community foundation. The Center
for Local Development was founded by local authorities and the Karelia Resource Center. The Center aims to involve citizens in decision-making at a local level, provide support for small- and medium-enterprise development, and provide new solutions of ecological restoration.

Public Health & Environment

Eco-restoration campaigns, such as riverbanks trash removal, general cleaning, and park roads and infrastructure improvements, were organized in 2005-2006 to address immediate environment and health needs. Wellness efforts included physical and dental health screenings, installation of water cleaning equipment, and cleaning of children’s play areas.

Business Benefits

Tangible qualitative and quantitative results have been achieved through the program, enhancing SUAL Group’s competitiveness and improving its long-term positions on both the Russian and international market.

Human Resources

The program created a foundation for comprehensive employee development for both, short- and long-term time frame. Elements such as pilot projects, local community grants, and urban infrastructure development have provided solutions for immediate needs, and are helping to assure a stable and comfortable
environment for the company’s employees. Other elements, including enhancement of education, SME development, and health screening, provided opportunities for youth development and retention, thus assuring continuous availability of qualified specialists in remote regions of SUAL operations.

| Public & Government Relations | The highly collaborative nature of the project provided opportunities for developing unique partnering skills and models. Collaborations with the non-profit sector yielded new approaches for planning, communication and facilitation of complex project, while work with local municipal authorities provided opportunities for trust building and culture change necessary for establishment of proactive approach to local socio-economic development. |
| Attention from Media | A large number of newspaper articles and video segments have been aired highlighting the accomplishments and impacts of the Complex Socio-Economic Development Program at the local and regional levels. Local media shared quantitative and qualitative information on each specific domain of the Program, raising awareness and trust where it counts most – at the level of Group Presence. Such continuous media attention helped improve the image of SUAL Group, increase the transparency of its social activities, and improve the quality of applicants to the competitive grant programs ran under |
The social and business benefits of the “Complex Socio-Economic Development in the Regions of SUAL Group Presence” program are far-reaching, and are yet to bloom in full force in the three pilot cities. Vasiliy Kiselev, Vice-President of SUAL Group puts it best:

“This is not a public relations effort, not a philanthropy effort, but a part of our business strategy. If you work in long-term mindset, and operate by long-term criteria, you must consider the level of development in your region of operation, the level of competency of its employees, the level of public services and infrastructure – and participate in shaping of it all. So, if I was to sum up all the business benefits of this effort, I would put it simply – the quality of personnel. The specifics of Russian human resource market are such that we do not have a mobile work force, so it is rather impossible to “buy” expertise; instead, you have to develop it from scratch, and then retain it. The Program allows us to achieve exceptional quality of personnel in very remote areas of the country, to advance drastically the speed and quality of local socio-economic development, and, at the same time, control our expenses associated with this domain. It’s a win-win at its finest.”

And as the program collaborators prepare near term plans for scaling up, one can only imagine all that is yet to come.
Lessons Learned

Program Strengths and Success Factors

The international expert team highlighted a number of features and factors that mark “Complex Socio-Economic Development for Territories of SUAL Group Presence” as a successful approach to creating sustainable community development and assuring long-term competitive advantage for SUAL Group. Such factors include:

Comprehensive Approach

The Program combines fiscal, economic, ecological, health, cultural, and educational development efforts to assure long-term advancement in the regions of SUAL Group operation. Such comprehensive approach to development allows to address systemic interdependencies that exist in any community, maximizing effectiveness and assuring long-term success of the efforts.

Parity Relationships with Local Government Authorities

The Program is built on the foundation of the Social Partnership Agreement that assures equal partnership relationships with the representatives of local governmental authorities. Such set up provides opportunity for constructive dialogue and systematic planning that helps break dependency attitudes in the local community and assure long-term advancement of local communities.
**Exceptional Implementation**

The Program is run in partnership with USAID and run by non-governmental organizations recognized for exceptional expertise in specific areas, from ecological restoration to small-and-medium enterprise development. This partnership model allows to attract best knowledge and experience, distribute implementation burden, and provide additional resources to community development efforts necessary for creating stable environment in the regions of SUAL Group operation.

**Effective Communication**

The Program employs a number of measures to assure information and experience exchange between program partners and the general public. Eurasia Foundation provides facilitation services, connecting and aligning specific efforts and events, and exchanging ideas and news between all parties involved. These measures assure effective use of resources, and expedites the speed of learning for all parties involved.

**Long-term Orientation**

The Program aligns its many components via a 3-5 year strategic planning process that systemizes development efforts and engages various stakeholders in the planning process. While a three or five year planning may appear at a medium, rather than long, range for many countries, in the context of the former USSR multi-year planning represents a qualitative shift to a new mentality. The long-term vision assures a systemic approach to
development, while creating the sense of ownership and legacy among stakeholders engaged.

**Customized Approach**

The Program takes into account needs, opportunities, and limitations of specific locations, customizing specific program elements and solutions. The set up allows adjustments to emerging needs, and maximizes the effectiveness of resource use.

**Future Opportunities**

The international expert team reviewing “Complex Socio-Economic Development for Territories of SUAL Group Presence” suggested a number of opportunities for scaling the program up to the level of all regions of SUAL Group presence, most importantly:

**Doubling the Number of Program Sites in the Next Year**

With the pilot phase completed successfully in the first three sites, ‘lessons learned’ offer fresh insights and proven communication infrastructure for increasing the numbers of cites with an active program to a minimum of six within the course of the next 12 month. A significant delay in expansion would most likely create gaps in information, expertise, and know-how accumulated to this point.

**Improving Change Management Skills in**

While a wide range of training programs have been offered as a part of the pilot phase, additional training tailored specifically to
| **Local Governments and SUAL Group Companies** | change management would be likely to increase the speed and quality of positive results. Particular skills within the change management domain should include training on multi-stakeholder strategic planning and public trust development. |
| **Increasing Participation of Other Businesses in the Program** | While some of the Program elements, such as community foundation development, do include cooperation with other businesses, the overall level of business partnership is rather low. Engaging other companies can attract new resources, improve implementation process, and decrease the management burden on SUAL Group. |
| **Increasing Visibility of the Program at the Level of General Public** | Two main opportunities to change the general public attitudes and expectations in the former USSR: a) to increase the level of self-reliance and civic engagement, b) to adjust the perception of social responsibility from charity to mutually beneficial approaches to social development. Promoting the Program has a potential for improving relationship between business and society in general, and enhancing the company’s image in particularly. |
CHAPTER 5

Case Study C: Troika Dialog Investment Risks Rating

“We are committed to developing properly the infrastructure, mechanics, and rules governing Russia’s capital markets. For us at Troika Dialog, Russia is not a hedge, weighting, or a fly-by-night venture; it is our home, and we are dedicated to building a bright future for it.”

Troika Dialog Identity Statement

It’s safe to say that business ethics is not the first thing that comes to mind when one thinks of Russia. Since the collapse of the USSR, the country has been holding steady positions in the international corruption rankings\(^\text{16}\), and its questionable business practices continue to fill the pages of the press worldwide. Would it be possible for one company to even consider turning this gloomy picture around?

Troika Dialog, Russia’s largest and oldest investment bank, has become the face of the country’s business ethics and corporate governance movement not by accident. At its inception in 1991, the company took on the world’s most powerful financial houses, and reputation was the name of the game. Ruben Vardanian, Chairman of the Board and CEO, explains:

“When Troika Dialog was founded in 1991, we had no connections and no capital; so reputation was our best bet. Plus, ethical business as a philosophy represented an interesting personal challenge. The 90’s were the years of early capital accumulation where one system was disintegrating, and another - emerging. In such a context it seemed that there was no right or wrong, and anything could be used in the name of survival; jungle ruled. So, it was important for us to prove – to ourselves

\(^{16}\) See, for example, the Transparency International Corruption Perceptions Index at [http://www.transparency.org/policy_research/surveys_indices/cpi/2005](http://www.transparency.org/policy_research/surveys_indices/cpi/2005), or the World Democracy Audit, at [http://www.worldaudit.org/corruption.htm](http://www.worldaudit.org/corruption.htm)
and the world - that everything is possible in Russia, that you can remain an honorable person, run your business by high standards, and yield high profits at the same time.”

Armed with Vardanian’s unorthodox business ethics philosophy, the company became a catalyst for many national business ethics and financial discipline initiatives. As such, Troika managed to mold its business environment, decreasing potential investment risks, improving the efficiency and effectiveness of the financial industry, and improving the company’s ability to compete and prosper.

In 2001 Troika took its business ethics efforts to a new level, partnering with the World Economic Forum to release a 65-page report on corporate governance investment risk profiles of Russia’s largest companies. Now, a 174-page publication, the Corporate Governance Risks Report offers individual companies ratings, along with in-depth trend analysis and future forecasts, to Troika Dialog customers and partners annually.

**Troika Dialog: The Unlikely Hero**

Troika Dialog is Russia’s oldest and largest private investment institution. As the company speaks of itself, “born with the fall of the Soviet Union in 1991, Troika Dialog was an idea sparked in a country swept by an exhilarating wind of change” – an idea that gave rise to an unwavering leadership in securities sales and trading, investment banking and asset management. Today, the bank accounts for 14% of all Russian equities that change hands on the RTS and MICEX, and has a 25% share of the ruble bond market. Through IPOs, private equity placements, and bond issues, Troika raises funds

---

for the major Russian companies, and manages more than $2 billion on behalf of investors through international offices in Moscow, New York, London, Kyiv and Cyprus.

From the timid beginnings of one of the first ten brokerage licenses in the nation received in 1992, to a recognized statue of leadership manifested in a lion market share in 2006, Troika Dialog grew beyond the role of a mere market participant to become a core-creator and co-architect of the Russian economy. Exhibit 5.1 tells a story of Troika – the agent of Russian society.

Exhibit 5.1 From Participant to Co-Creator: Troika Dialog as an Agent of Russian Economy

| Inspiration | The collapse of the USSR brought about a complete elimination of all legal and economic systems. The fifteen newly independent nations emerged from the collapse with establishment of new currencies, banking infrastructures, legislation, and much more, all in pursuit of a complete overhaul from government-owned administrative economy to a privately driven market economy. Since the ‘iron curtain’ prevented free interaction with all foreign institution, Russian educators and emerging entrepreneurs had very little knowledge of the concepts, theories, practices, and tools of the market. While many of the conceptual gaps were filled rapidly, business ethics and long-term value creation rarely found place among operating assumptions of the new Russian businessman. Companies were expected to turn profit in few short months, and any means were a “go” to this end. As a result, companies would often put their benefit ahead of the ‘common good’, as much as individual employees would get ahead at the expense of other employees or a company as a whole. |
| Innovation | To offset the pull of this gloomy environment, Troika Dialog took proactive steps for creating an entirely different organizational culture, building “a normal company for a normal country”.

18 From Ruben Vardanian at the Helm of Troika Dialog, © INSEAD, 2003
statement put fairness, trust, and integrity at the foundation of Troika’s operation, while the clause of “Commitment to Russia” defined a mindset of long-term value creation and servant leadership. All new employees were required to memorize the statement, which was often used as a guide in company discussions and ethical situations. The Identity manifesto was also backed up the “Rules for Everyone”, an extensive list of clear explicit guidelines, such as “We win or lose together so don’t ever say ‘That’s not my problem.’”

Together, “Our Identity” and “Rules for Everyone” molded the culture of Troika Dialog, carrying the “common good” philosophy beyond its corporate boundaries into relationship with the market and the society as a whole.

Impact

The formal structures put in support of the “common good” philosophy made a significant impact on the company and the environment it operates in.

Internally, Troika Dialog developed a team of competent, trustworthy, loyal, and inspired professionals dedicated to creation of a healthy economy via creation of a healthy company. The culture of this team was best tested during the economic crisis of 1998 that shook the young Russian market to its core. Troika was forced to take multiple measures to protect its existence, including major salary cut throughout the company. However, with the advice of Western executives, company leadership decided to keep the salaries of the traders - the key revenue-generators of the company. As the traders learned of the decision, they demanded a full and fair salary cut - marking the true transformation of corporate culture.

Troika Dialog’s commitment to the good of the whole translated into a significant role at the level of the nation. The company facilitated the birth of Russia’s formal financial markets, offering its contribution to the creation of stability, transparency, and fair rule in the nation. In 1994, the company facilitated the establishment of the National Association of Brokers and Dealers (NAUFoR), and Ruben Vardanian served as its chairman of the board from 1997 to 1999. In 1995 Troika Dialog co-founded the Depository Clearing Company, 22

---

19 From Ruben Vardanian at the Helm of Troika Dialog, © INSEAD, 2003.

20 From Ruben Vardanian at the Helm of Troika Dialog, © INSEAD, 2003.


and in 1997 co-facilitated the establishment of the Moscow Stock Exchange\textsuperscript{23}.

From its early days, the bank has been recognized by national and international organizations with numerous awards; among them are:

- #1 pan-European brokerage based on voting by Russian fund managers (Thomson Financial Extel Survey 2003 and 2004)
- Best Equities House in Russia 2004 (Euromoney Awards for Excellence)
- Outstanding Reputation Award 2004 (Komsomolskaya Pravda Newspaper)
- Company of the Year 2001 (NAUFOR Securities Market Elite)
- Emerging Market Leader 2000 (World Economic Forum)
- Troika Dialog President Ruben Vardanian – Entrepreneur of the Year in Russia 2004 (Ernst & Young) and Investment Banker of the Year 2003 (RosBusinessConsulting’s Person of the Year award)

This stature was in part achieved by the state-of-the-art research program run by the company. Troika Dialog’s Research Department offers the most extensive research coverage of Russia’s capital markets. The company is not affiliated with any major industrial group, and thus enjoys the reputation of being an independent, and thus more

\textsuperscript{23} From Ruben Vardanian at the Helm of Troika Dialog, © INSEAD, 2003.
Objective, advisor. Troika’s research team consists of professionals who actively monitor hundreds of companies, providing in-depth analysis of the 70 most important listed Russian firms. Among the twenty-three internationally trained specialists, one analyst is dedicated entirely to the research on corporate governance performance: Elena Krasnitskaya’s knowledge and expertise in assessing the connection between corporate governance and financial performance has been demanded at the most prominent conferences, seminars, and forums in the domain of governance and business ethics.

Inspiration: Success Redefined

While the company enjoyed financial success from its early days of operation, the reality of Russian unruly market has always presented immense challenges to its growth and development. Russian Federation has been built on the ruins of the former USSR, which collapse in 1991 has led to the years of uncertainty, rapid change, and early market germination. Since the Soviet system allowed limited entrepreneurial activity and no significant private ownership, it took half-a-decade for the nation to complete somewhat acceptable privatization, create rudimentary legislation, and establish the first formal financial institutions, such as stock exchanges and broker associations. By late nineties, it was still customary for most companies to bypass yearly independent financial audits, ignore minority shareholder rights, and practice unreliable and ever-changing standards of accounting. Naturally, as an investment bank, Troika Dialog had a vested interest in improving the transparency, accountability, ethic, and financial discipline of Russian private enterprise. Ruben Vardanian, Chairman of the Board and CEO, confirms:

“From the beginning, we as a company understood that being successful was not only about our own success, but also about creating an environment where our strengths could be realized to the fullest potential."
So, the more transparency and stability we have in the rules of the game, the stronger our competitive advantage gets. Surviving economic jungle is not our core competence. So what unites many of our seemingly diverse initiatives – the stock market involvement, professional organizations establishment, corporate governances work – is our effort to mold the environment into a transparent, simple, fair system.”

Troika played a leading role in the creation of the Corporate Governance Committee of the Bureau of the Russian Union of Industrialists and Entrepreneurs (RSPP), the most prominent business organization in the country. The committee combines in-depth applied research on the matters of corporate governance with efforts to improve legislature and regulation within the domain, with Ruben Vardanian elected as the committee chairman. The company also serves as a founding member of the National Center for Corporate Governance, leads many of the regional efforts of the World Economic Forum in this domain, and sponsors publication of the most prominent educational resources in financial discipline and business ethics, such as *Markets, Mobs & Mayhem* by Robert Menshel, or *Business Ethics: A Global and Managerial Perspective* by David Fritzsche. The company has been solidifying all its efforts with the work on changing the rules of the game, collaborating closely, as Mikhail Tabakov, Troika’s corporate governance coordinator, suggests, with governmental agencies on laws and regulations around these issues:

“Troika’s role in the advancement of the corporate governance in Russia also touches the issues of legislation. Government has increased its interest in this topic, and we actively participate in the development of new laws and regulations, provide in-depth review of proposed changes and adjustments, and such.”
Furthermore, since 1998, Troika has been monitoring corporate governance behavior of the largest Russian companies as a part of its investment risk research efforts. To this end, the company developed a set of metrics and assessment techniques, which have been continuously refined ever since. While at the beginning these efforts primarily served the internal needs of the investment bank, other organizations, mainly international financial institutions, have engaged actively in promoting the issues of corporate governance in Russia, and Troika Dialog turned some of its attention externally. Among six organizations engaged in governance work, one took a proactive approach to igniting change in the corporate governance conduct of Russian companies: in late 2000, World Economic Forum (WEF) tailored its existing governance code to the realities of the emerging nation, inviting Russian companies commit to eight principles on long-term performance focus, transparency, disclosure, voting rights, director accountability, and more. Troika Dialog became a founding member of the Russian Task Force of the Corporate Governance Initiative of the World Economic Forum, playing a key role in developing and promoting the WEF Corporate Governance Principles. Thierry Malleret, Director, Europe and Central Asia, and Stefan Muhlemann, Project Manager, Corporate Governance Initiative of the World Economic Forum, explain reasoning behind the Russian Task Force efforts:

“By bringing to the table key players from both the demand and the supply side, the Forum hopes to produce a “Gresham Law” in reverse: the companies with good corporate governance are introduced to existing and potential investors. Through peer pressure, the good companies are expected to evict the bad ones. As a result, more capital should become available.”

24 Interview with Elena Krasnitskaya, Corporate Governance Analyst, Troika Dialog.
By October 2001, 11 companies became signatories of the WEF Corporate Governance Principles, among them Troika Dialog. However, the company played a much larger role than a mere participant: Troika brought in its signature assessment know-how to monitor governance performance of the signatory companies, becoming the agent of accountability for the voluntary initiative. Mikhail Tabakov, Troika’s Corporate Governance coordinator, clarifies motivation behind this partnership:

“Troika has been monitoring corporate governance behavior since 1998, and the World Economic Forum initiative seem to be a right fit for escalating our efforts to a new level. Now we could participate in a market-wide change initiative by doing what we do best: performance monitoring and analysis.”

World Economic Forum seemed to agree with such a win-win arrangement, as Thierry Malleret and Stefan Muhlemann suggest:

“Troika Dialog’s continuous monitoring...will divulge further empirical evidence on the relationship between a company’s share price performance relative to a benchmark and its corporate governance behaviour. In view of the significantly increased risk-aversion of investors after September 11, good corporate governance will gain even more weight in asset pricing models. A company’s corporate governance behaviour will continue to help investors to separate the wheat from the chaff.”

The partnership resulted in “The Corporate Governance Initiative of the World Economic Forum: Changing Corporate Governance in Russia” report, launched at the WEF Russia Meeting in October 2001. The report included concise rankings of Russia’s 58 largest publicly traded companies, along with extensive profiles of the publicly traded companies-signatories of the WEF principles. The ranking of the nation’s largest companies provides a company name, industry, market capitalization, along with corporate governance performance against five criteria:
• Transparency (low, moderate, high)
• Accountability (poor, fair, good)
• Investor Relations (inefficient, adequate, efficient)
• Discipline (weak, fair, strong)
• Conduct (unsatisfactory, flowed, satisfactory)

Combined, the five criteria provide grounds for the overall rating of a company exposure to potential corporate governance risk – low-to-fair, fair-to-vulnerable, or vulnerable-to-high.

The semi-structured extended profiles of the WEF corporate governance principles signatories provided core financial data and performance, a review of a company’s adherence to the WEF principles, highlights of the major events impacting the stock price, and rating of the investment risks.

Additionally, the report highlighted the most important market-wide trends, detailed methodology used, and reviewed changes in ranking for each company. The report also included two extensive appendixes; Appendix 1 compares the most relevant for the Russian market corporate governance frameworks; Appendix 2 overviews the “Who is Who in Corporate Governance in Russia.” Exhibit 8 spells out the importance of the WEF-Troika Dialog partnership, and details the impact of this innovation.

Exhibit 8 2001 "The Corporate Governance initiative of the World Economic Forum: Changing Corporate Governance in Russia" Report

Inspiration  It is rather customary of the international business community to launch voluntary initiatives aimed at filling the ethical gaps left in national and international regulation. What is not that customary, however, is to develop, test, and
implement reliable monitoring mechanism to verify compliance of organizations involved in the initiative. While some organizations, such as the United Nations Global Compact, do attempt to develop standards of reporting for members of the code or compact, most do not implement objective reliable independent verification measures to assure adherence to the codes or principles at stake. As a result, the validity of the entire initiative may get under question, and its impact remains unclear and unaccountable.

Innovation The World Economic Forum Corporate Governance Initiative combined the work of the Organization for Economic Cooperation and Development, the International Corporate Governance Network, and the California Public Employees' Retirement System, extracting and adjusting the established practices into eight concise Russia-tailored principles. Since 2001, Russian companies were invited to join the WEF Corporate Governance Initiative, which allowed companies to increase their attractiveness to potential investors, while improving the image of the nation’s capital markets as a whole. An objective independent verification process laid at the core of WEF Initiative: Troika Dialog used three years of research on 95.4% of the Russian market by capitalization to develop profiles of corporate governance behavior. Using 25 measures synthesized into 5 separate criteria, Troika provided yearly comprehensive review of the corporate governance practices of the WEF members, serving as an agent of accountability for the initiative and the governance philosophy at large.

Impact Five Russian companies joined the WEF Corporate Governance Russia-tailored principles in January 2001 as founding members of the Russian Task Force. Four more organizations joined in July 2001, and two more joined in October 2001. As a pre-requisite to joining, a company receives an in-depth corporate governance audit, aimed at assessing adherence, consistency, good will of a candidate. To ‘pass’ the audit, all companies took proactive steps to demonstrate commitment to improving governance performance, such as reforming accounting standards or increasing information value of corporate websites and other investor resources. Thus, within a year of the launch, 11 of the 58 largest Russian companies committed to the WEF code, and took significant steps towards reforming their corporate governance performance.
The 2001 Report laid the foundation for the future of the Troika Dialog’s corporate governance efforts. Many of the original ideas used in the report were later developed into new formats and techniques. All together, the World Economic Forum partnership played a significant role in the development of the innovative annual Corporate Governance Risks Report, serving Troika Dialog customers and core partners since 2001.

**Innovation: Social Change Through Commercial Product**

The Corporate Governance Risks Report offers a rare win-win mechanism for the investment bank, its constituencies, and the society at large. The Report serves as a risk management tool for the company and its clients, while at the same time motivating individual companies to improve their governance to become more appealing to potential investors, and thus setting the standard of governance and management for Russian markets as a whole. Developed out of the 2001 collaboration with the Corporate Governance Initiative of the World Economic Forum that produced public results, the Report is now distributed as a feature of Troika’s services, and is not offered via a public venue. Instead, the research on the potential corporate governance risks inform the overall evaluation of a company performance, influencing buying and selling decisions, and thus indication areas of improvement to the publicly traded companies. The Report includes individual company profiles, along with market-wide analysis of major trends, legislation alerts, and future forecasts; extensive appendices offer insight into special issues and review major resources in the corporate governance domain.
Individual Company Profiles

At the level of individual company, the Report tracks potential corporate governance risks by evaluating the organizational performance of Russia’s 60 largest companies on five dimensions:

- **Ownerships structure and transparency** Spells out the voting stock structure, owners and affiliates, and rates the degree of transparency on a scale from low to high.
- **Supervisory and control structure: accountability** Spells out board of directors structure and composition, and rates the degree of accountability on a scale from poor to good.
- **Management and investor relations** Offers detailed qualitative information on management policies, investor information resources, and rates investor relations on a scale from inefficient to efficient.
- **Corporate conduct** Assesses corporate conduct policies and incentives, and rates governance track record on a scale from poor to good.
- **Information disclosure and financial discipline** Spells out auditing standards and mechanisms, record disclosure, dividend history, and rates financial discipline on a scale from weak to strong.

The five criteria are combined into an overall score of a company’s exposure to potential corporate governance risks, ranging from 5 (the lowest level of risk) to 20 (the highest...
level of risk). The 60 companies are then put into one of three categories: “Low to fair”, “Fair to vulnerable”, and “Vulnerable to high”. Exhibit 5.3 serves an example of a single company rating as appears in the Report.
Exhibit 5.3 Sample Company Profile, Troika Dialog Corporate Governance Risks Report

Kalina

Ownership Structure and Transparency

Voting stock

- Publicly owned: 31.6%
- Privately owned: 68.4%

Owners and affiliates
- CTC is the main shareholder (includes CTC Timur Company, 51%)
- Other private owners include (BRK): 9%

Owned by Kalina
- Production
  - Nauka (Kiev)
  - Nauka (Kyiv)
  - Nauka (Kiev)

Distribution
- Kalina Overseas Holding (Netherlands)
- Nauka (Kiev)

Established as of October 2003
- No. of shareholders: 6,350

Supervisory and Control Structure: Accountability to Shareholders

Board of directors

Effective: April 20, 2003

- EXE: Chairman, Ilya Vovkanev, Managing Director
- EXE: Timur Magnyans, CTO, Kalina
- EXE: Rostislav Shilenski, Executive Director
- EXE: Oleksandr Tarasov
- EXE: Dasha Hudee
- EXE: Vitaliy Kalya
- EXE: Yu. Knyazhev
- EXE: Mark Popivtsa

Degree of transparency
- High

Degree of accountability
- Good

Management and Investor Relations

CEO: Timur Magnyans (1967), in post since 1996
- Founder and CEO

Website: www.kalina.org
- Website Information Value: High

Management structure and accountability
- After going public in April 2004, Kalina still does not have a dedicated IR team. CEO Timur Magnyans, who exercises full control on the operational and strategic levels, has been significantly reducing his stake. The management intends to expand the company’s presence on international capital markets, having initiated a GDR program for 19.99% of the shares. The next challenge is to build up good relations with the financial community.

Corporate Conduct

Covenants are well defined and monitored.
- Corporate governance charter
- No
- Pending: ARM/Listing program
- None

Information Disclosure and Financial Discipline

Accounting standards
- Local GAAP

Auditor
- External: Deloitte Touche

Independence of internal auditor
- Adequate

Disclosure record with FFAS
- Good

Level of ARM program
- Level 1

Listing of ARM
- NYSE

Listing of local stock
- RTS

Registrar
- Central Securities Depository (Kiev)

Registrar risk
- Moderate

Dividend history
- Consistent

Dividend Coverage
- Strong

Financial discipline
- Strong
Market-wide Trend Analysis

At the level of the country, the report offers highlights of the most important legislation changes, analysis of trends, and forecast for the upcoming year:

**Capital markets analysis**
Reviews major developments in operations of local regulatory institutes and Russian stock exchanges; reviews the structure and composition of specific indexes.

**Summary of major developments**
Highlights major developments on the regulatory and legislative levels; offers summaries of the most important improvement opportunities for the upcoming year.

**National trend analysis**
Provides an aggregate assessment of performance for the 60 companies rated; highlights specific risks or opportunities to the market as a whole.

**Summary of changes**
Offers a full listing of the change in rating for each individual company (upgraded, no change, or downgraded), along with a commentary on the reasoning behind the change.

Furthermore, the Report provides detailed information on the methodology used, and offers a wide array of additional resources conducive to a deeper understanding of context, structure, and mechanisms of Russian capital markets. Exhibit 5.4 demonstrates one of the trend-watching tools offered by the Report.
Impact: Leverage Small Solution for Big Change

Troika Dialog’s efforts in the domain of business ethics and corporate governance, most notable, its invention of a relatively small solution, the corporate governance investment risk ratings, have yielded significant results for company the national capital markets, and the community at large.

Societal Benefit

While the Troika Dialog Corporate Governance Risk report is a private service offered to the company clientele, its origins and stature among the Troika research efforts made a significant impact on the corporate governance standards nationwide. The Report grew
out of the 2001 collaboration with the Corporate Governance Initiative of the World Economic Forum, which was a highly publicized venture, open to Russian companies on a voluntary basis. All companies interested in signing onto the WEF governance code had to pass rigorous audit, and make significant changes in the corporate conduct and standards. In addition to the WEF signatories, the 2001 Report profiled 58 largest companies traded via one of the nation’s stock exchanges, the Russian Trading System (RTS), which Troika co-founded. The Report was widely distributed, creating the first tangible ‘how-to’ guide of corporate conduct, financial discipline, transparency, and accountability. Moreover, the World Economic Forum was among the very first institutions to promote good governance in Russia; and in the first year of the WEF efforts, the number of national and international organizations working in this domain doubled\textsuperscript{25}.

The legacy of the 2001 Report is carried on via the overhauled annual Corporate Governance Investment Risks Report. While the company does not make it its goal to track and measure the impact of the annual report on the individual company behavior, it is aware of the consequence created by the effort. Mikhail Tabakov, Troika’s corporate governance coordinator, clarifies:

“Because the Report is offered as an exclusive service to our clients, our primary “success measure” is the satisfaction of our customers, and the Corporate Governance Report ranks among our most demanded and used research products. However, it does naturally impact the market as a whole: the corporate governance behavior effects the “buy” or “sell”

advisories that companies are so attuned to, and they tend to do all possible
to become more appealing to potential investors.”

Troika’s knowledge of Corporate Governance practices and frameworks, coupled with extensive longitudinal analysis of governance behavior of Russia’s largest corporations, provide resources and credibility for Troika’s leadership role in the national and international corporate governance efforts. The company uses platforms such as the Bureau of the Russian Union of Industrialists and Entrepreneurs (RSPP) and the National Center for Corporate Governance to disseminate its extensive knowledge and catalyze system-wide change. For instance, the RSPP’s Corporate Governance Committee, chaired by Ruben Vardanian, has chartered on a multi-year research program titled “Corporate Governance: Reform in the Interest of Business”. The program produces annual report highlighting priorities and mechanisms for improvement, high-yield opportunities for system-wide regulation reforms, and most notable changes and trends in the nation. The words of Mikhail Tabakov offer a great summary of the progress made in the domain of corporate governance, the progress catalyzed by Troika-Dialog efforts;

“Our early work was done amidst a lot of confusion. We would have hard time explaining what corporate governance is, and if it has any relationship to the concept of corporate social responsibility, so early 2000 and 2001 was all about that. But then Russian business made a lot of progress, and the work of the corporate governance committee at RSSP is a great gauge of that, as many large Russian companies have caught up with the Western counterparts, implemented significant standards and process, and keep developing it further. Interesting dynamic there – at the beginning the largest companies serves as the drivers of the reform, and they reached the destination very quickly, whereby all international and national standards and laws are now met. What is happening now, in 2006, is that the

companies of medium size that interested in IPO became the catalysts of the further reform, and we are happy to support them in these efforts.”

Business Benefit

Since its introduction in 2001, Troika Dialog Corporate Governance Risks Report made a transition from a marginal research output to a highly regarded product of the company’s analytic department. One of Troika’s best analysts, Elena Krasnitskaya, works on the Report exclusively, and leads extensive client education efforts aimed at delivering the benefits of the Report to Troika’s many constituencies. As a result, the corporate governance overview became the standard required portion of all client presentations and meetings, and customers regularly request corporate governance information on a specific company prior to making an investment decision. Elena Krasnitskaya, Corporate Governance Analyst, confirms:

“Initially, we had to do immense amount of work to communicate around the concept of corporate governance and its business implications, so I had to spend significant time with both, companies rated and the investing clients, to get the message across. This work has been very fruitful, as the corporate governance investment risk rating has been among our most popular research products for a few years now. “

Troika’s status as a leader in the establishment of transparent, functional, and stable capital markets for Russia has been recognized by numerous prestigious international rewards. In 1996 Euromoney rated Troika Dialog “Russia’s Best Securities Company,” and the investment bank retained this position for 1997, 1999, and 2004. In 2005, the

27 Interview with Elena Krasnitskaya, Corporate Governance Analyst, Troika Dialog.

28 Interview with Mikhail Tabakov, Corporate Governance Coordinator, and Elena Krasnitskaya, Corporate Governance Analyst, Troika Dialog.
company was recognized for the Best Domestic Debt Research, the Best Secondary Equities House 2005, the Best Derivatives House 2005 by the Global Finance Best Banks in Russia Awards, and was ranked #1 pan-European brokerage based on voting by Russian fund managers via the 2003 and 2004 Thomson Financial Extel Survey.

The company leader, Ruben Vardanian, was named among Fortune magazine's 25 Rising Stars, the World Economic Forum’s 100 Global Leaders for Tomorrow, and United States Chamber of Commerce 1999 Businessman of the Year for his significant contribution to business development in Russia and respect of high standards of professional ethics, while its management team gets top ratings in by local professional associations and think tanks.

The Bank’s leadership is convinced that its corporate governance efforts and commitment to honorable business practices are also at the core of its financial success. Ruben Vardanian explains:

“From the beginning, we as a company understood that being successful was not only about our own success, but also about creating an environment where our strengths could be realized to the fullest potential. So, the more transparency and stability we have in the rules of the game, the stronger our competitive advantage gets… The 90’s were the years of early capital accumulation where one system was disintegrating, and another - emerging. In such a context it seemed that there was no right or wrong, and anything could be used in the name of survival; jungle ruled… Surviving economic jungle is not our core competence. So what unites many of our seemingly diverse initiatives – the stock market involvement, professional organizations establishment, corporate governance work – is our effort to mold the environment into a transparent, simple, fair system.”

---

29 Interview with Ruben Vardanian, Chairman of the Board and Co-Founder, Troika Dialog.
As of 2006, Troika attracts 35 cents of every new dollar that enters Russian investment market, and has over $3.0 billion USD in total managed assets.

With its sixth edition of the Corporate Governance Risks Report and countless efforts in education and whole-system change, Troika Dialog has created a unique business model that allows for creation of mutual benefit for the company and the rest of society. And at the end, Troika’s Corporate Identity statement, developed in 1994, puts it best\(^30\):

“We are committed to developing properly the infrastructure, mechanics, and rules governing Russia’s capital markets. For us at Troika Dialog, Russia is not a hedge, weighting, or a fly-by-night venture; it is our home, and we are dedicated to building a bright future for it.”

**Lessons Learned**

With its many corporate governance and conduct efforts, Troika Dialog ventured into a territory unknown to most of its Russian counterparts, and succeeded at navigating this new landscape and catalyzing a system-wide change within the Russian capital market. The company owes its success in the governance domain to many of its skillful choices, as well as some of the influences from the environment it operates within. The following appear to be the most important factors framing Troika’s success in the domain of corporate governance.

*Internal Success Factors and Life-Giving Forces*

---

\(^30\) From *Ruben Vardanian at the Helm of Troika Dialog*, © INSEAD, 2003.
Executive Commitment and Hands-On Engagement

Troika Dialog’s engagement in the area of corporate governance came as an extension of personal philosophies of its executive leadership, starting with the company co-founder and chairman, Ruben Vardanian. This original commitment to ethics and service was the main attractor for many of its later hires, such as Michael Flood, who was inspired to join the company in 1999 as Chief Financial Officer after retiring as a head of PricewaterhouseCoopers’ Moscow office. What solidified Troika’s success in the domain of corporate governance was the hands-on engagement of its original and acquired leaders. Troika’s executives stand behind many initiatives at the company, country, and world levels, and Ruben Vardanian’s recognized authority on corporate governance issues in the post-soviet environment leads to lectures and presentations at the most important institutions worldwide.

Servant Leadership

The investment bank was built on the philosophy of the “benefit of the whole”, whereby Troika’s leadership inspired the entire company to take on a proactive role in re-building Russia’s

---

31 From Ruben Vardanian at the Helm of Troika Dialog, © INSEAD, 2003.

crushed economy and dismantled society. The company used what it does best – financial services – to participate in the creation of new systems and infrastructures for an emerging nation. Fifteen years since its inception, the company contributed to “normalizing” its environment by co-founding stock exchanges, professional organizations, and specialty committees, while enjoying the unprecedented loyalty, productivity, engagement, and professionalism of its 400+ employees.

**History of Competence**

Troika Dialog has been actively engaged in corporate governance and conduct efforts for most of its existence, building its own work on the foundation of proven international practices and frameworks. To blend the best of existing models and Russian experience, the company regularly participates in conferences, forums, and seminars, acquiring new knowledge and sharing its own research in the domain of governance and business ethics. Such consistency and long-term approach to this generally overseen domain assured solid grounds for specific initiatives of the company, building expertise and reputation in Russian and beyond.

**Business-Oriented Solutions**

While some of Troika’s governance and ethics efforts fall under the auspices of social engagement and community development, its most innovative effort – Corporate Governance Investment
Partnerships of Elevation

Skillful partnership has always been at the core of Troika’s governance efforts, and its signature product – Corporate Governance Investment Risks Report – grew out of the collaboration with the World Economic Forum. The company’s particular strength is the ability to choose partnerships that elevate its efforts to a new level or scope – leveraging unique abilities to make the most significant impact possible.

External Success Factors and Life-Giving Forces

Pressure from International Investment

While much of the success of Troika’s governance and conduct efforts came from the company’s own resources and decisions, some external forces catalyzed its work. The most important of
such forces is the rise of corporate governance expectations within investment community worldwide. The importance of good governance has been emphasized by such organizations as the World Bank, the European Bank of Reconstruction and Development, the International Finance Corporation, the Standard & Poor’s, and the World Economic Forum. As the young investment bank in an emerging economy, Troika was dependent on the perceptions within international financial market, and its ethics efforts contributed to the company statue and reputation.

As the pressure for good corporate governance mounted worldwide, so did the availability of tested resources, models, and frameworks for implementing and assessing the progress in this domain. Troika used existing frameworks as building blocks of its own model of corporate governance monitoring, and participated in nation-wide initiatives aimed at adopting international models to Russian reality.
CHAPTER 6

In Search of Theory

I have started this research project in a pursuit of two seemingly straightforward questions:

3. How do companies of the former USSR successfully integrate business and societal benefit in their strategy and operations?

and

4. What are the forces and factors – both internally (management practices, leadership approach, etc.) and externally (history, culture, government regulations, etc) - that contribute to successful integration of the business and society benefit?

The three case studies of business innovations, presented in the previous chapters, took a shot at the first question driving this quest, providing real-life examples of processes and outcomes of successful integration of business benefit and positive social impact in the context of the former USSR. The success of each innovation was defined by evidence of business and societal benefit, while novelty and impact were confirmed by the panel of experts recruited to nominate the cases in the first place. In this chapter I will focus on the second research question in an attempt to understand driving forces of such integration.

I have taken the first step towards understanding – and, ultimately, replicating - successful integration of business and societal benefit in the post-soviet environment as I
worked on each case study individually. ‘Lessons learned’ section of each case offered the results of the data analysis of “life-giving forces” for each innovation. Thus, naturally, the synthesis of these analyses should result in an organized sum of all forces and factors identified. Or, at least, so I thought. As I reviewed the original data, the written case study, and the “lessons learned” for each innovation, and compared data across the cases, it became apparent that the driving forces noticed during individual case analysis were more descriptive, rather than explanatory. In other words, the identified “live-giving forces and factors” served as markers or symptoms allowing to spot business innovations for world benefit, but did not provide substantial explanation of the paradigm or frame of reference that provide for creation of a truly mutual benefit for business and society. Furthermore, the ‘markers’ could serve as rules, guiding principles, or specific steps if one was to consider a hefty task of mutually-beneficial innovation, however, a specific frame of reference is a required pre-requisite for such rules or steps to be of impact.

This discovery led to an entirely new level of analysis, where the data coding was driven by the search for signs and references to paradigms, frames of reference, and underlying assumptions necessary for the creation of a successful business solution for society’s most pressing issues. Propositions for the ‘state of mind’, or frame of reference, driving creation of mutual benefit in the context of the former USSR, was born as a result.

The following pages will follow my sense-making journey, spelling out, first, the synthesis of individual case study analyses, and then offering a set of core propositions, which, as data suggest, constitute a mutual benefit paradigm that serves as a DNA of the
most successful ventures for business and societal benefit in the context of the former USSR.

The Markers: Few Easy Rules for Successful Innovation for Business and Society

The three case studies, which constitute the core data of this research project, were nominated by the group of experts representing international organizations with in-depth knowledge of the business-in-society dynamics within the boundaries of the former USSR. The experts were specifically requested to nominate outstanding examples of innovations in organizing – rather than innovative companies – with the hope of capturing distinct replicable business solutions for the most pressing needs of the emerging nations of the post-soviet block.

The open call for innovation in organizing for positive change yielded three very different stories: the tale of the first Kazakh corporate foundation, the history of the first Russian corporate governance investment risk profiling, and the study of the most successful partnership for comprehensive socio-economic development in rural Russia. Table 7 gives a snapshot of the innovations studied.

Table 7 Innovations for New Nations: Case Studies in Review

<table>
<thead>
<tr>
<th>Summary</th>
<th>Case A Community Foundation</th>
<th>Case B Partnership for Development</th>
<th>Case C Investment Risk Profiling</th>
</tr>
</thead>
<tbody>
<tr>
<td>The first regional corporate philanthropic foundation</td>
<td>A public-private partnership to address socio-economic development in the rural regions of company’s operations</td>
<td>A profiling of investment risks related to the quality of corporate governance for 60 largest Russian companies</td>
<td></td>
</tr>
<tr>
<td>Region of Innovation</td>
<td>Central Asia</td>
<td>Russia</td>
<td>Russia</td>
</tr>
<tr>
<td>----------------------</td>
<td>--------------</td>
<td>--------</td>
<td>--------</td>
</tr>
<tr>
<td>Company-Innovator</td>
<td>Kazkommertsbank</td>
<td>SUAL Holding</td>
<td>Troika Dialog</td>
</tr>
<tr>
<td>Industry</td>
<td>Banking and Finance</td>
<td>Mining and Metals</td>
<td>Banking and Finance</td>
</tr>
<tr>
<td>Other Key Players</td>
<td>Eurasia Foundation of Central Asia</td>
<td>USAID Russia=</td>
<td>World Economic Forum</td>
</tr>
<tr>
<td>Core Social Impact</td>
<td>Support for culture, arts, and needs of disadvantaged populations. Advancement of Corporate Social Responsibility culture nationwide.</td>
<td>Advancement in health care, education, small- and-medium enterprise development, local governance, and ecology.</td>
<td>Improved corporate governance standards nationwide</td>
</tr>
<tr>
<td>Sources of Business Value</td>
<td>Customers</td>
<td>Employees</td>
<td>Customers &amp; Investors</td>
</tr>
</tbody>
</table>

While the stories do represent significant variety in methods, areas of societal impact, and sources of business value, the comparison across the case studies suggested significant similarities in the internal, or company-controlled factors and forces that influenced the success of each innovative solution. In a way, the sum of these factors and forces suggests “the right things to do” if a company or a business-affiliated alliance takes on a task of creating successful and mutually beneficial solution to a particular societal problem. A few external, environment-induced factors (such as “extreme societal need”) were also noted in the individual case analysis. Upon careful consideration during the cross-case study analysis, these factors appeared to be common and omni-present for
every company in the former USSR, and thus did not emerge as differentiators of success for specific innovations studied. As a result, for the remainder of the analysis, I have tended to the factors and forces within immediate control of organizations studied.

The factors suggest particular choice points in the domains of leadership strategies, organizing principles, and implementation practices relevant to a specific project, initiative, or solution. Table 8 organizes the ‘life-giving’ factors identified in each of three case studies in accordance with the four above-mention domains; the last column of the table offers a synthesis of all forces in a form of rules of successful business-in-society innovation.

In the domain of leadership, two out of three cases suggested particular importance of the commitment and first-hand engagement of the top management; “Commitment of Top Management” was suggested as a synthesized innovation rule. The role of elevated motivation was highlighted in two of three cases, while another case suggested the importance of leadership expertise. The three ‘markers’ were combined into a synthesized rule of “Servant Leadership.”

Within the domain of organizing principles, all three cases suggested the importance of long-term orientation and business outlook; “Integration Into Core Business” was chosen as a synthesis. All cases alluded to the importance of thoroughness and deliberate strategy, which was reflected in the ‘rule’ of “Comprehensive Strategy.”
<table>
<thead>
<tr>
<th>Domain of Innovation</th>
<th>Case A Community Foundation</th>
<th>Case B Partnership for Development</th>
<th>Case C Investment Risk Profiling</th>
<th>Suggested Rule of Innovation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Leadership Strategies</strong></td>
<td>Commitment of The Top Management</td>
<td>Top management of a company provides substantial support for implementation of the world benefit agenda.</td>
<td>Executive Commitment and Hands-On Engagement</td>
<td><strong>Commitment of Top Management</strong></td>
</tr>
<tr>
<td></td>
<td>Inspired Leadership</td>
<td>Leaders driving the innovation are inspired by the notion of world benefit.</td>
<td>Exceptional Implementation Expertise</td>
<td>Top management of a company provides substantial support for implementation of the world benefit agenda.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Leaders driving the innovation are selected for exceptional expertise in relevant domain.</td>
<td>Servant Leadership</td>
<td><strong>Boundary-Less Leadership</strong></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Leaders driving the innovation put the notion of world benefit at the core of its goals and actions.</td>
<td></td>
<td>Leaders driving the innovation use their core expertise in service of world benefit.</td>
</tr>
</tbody>
</table>
### Organizing Principles

**Integration Within the Company**
The world benefit agenda is distributed through and carried out by different functions of an existing company.

**Long-term Orientation**
Actions and solutions are chosen with an aim of a long-lasting effect for a company and society.

**Business-Oriented Solutions**
The world benefit agenda is implemented via traditional business tools and mechanisms.

**Integration Into Core Business**
The world benefit agenda is integrated into core business strategy and implemented via business tools and mechanisms.

### Comprehensive Approach
Factors and forces relevant to the creation of world benefit are addressed simultaneously.

### History of Competence
The proven approach of thoroughness and comprehensiveness drive the innovation.

### Customized Approach
There is a room for flexibility and customization the world benefit implementation strategy.

### Table 6.2 Markers and Rules of Successful Innovation for Business and Society, continued

<table>
<thead>
<tr>
<th>Domain of Innovation</th>
<th>Case A Community Foundation</th>
<th>Case B Partnership for Development</th>
<th>Case C Investment Risk Profiling</th>
<th>Suggested Rule of Innovation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actions, Tools &amp; Practices</td>
<td>Investment Into Metrics and Reporting Structured systemic methods of measuring and communicating impact are used for implementation of world benefit agenda.</td>
<td>Effective Communication Structured systemic methods of communicating processes and impacts are used for implementation of world benefit agenda.</td>
<td>Deliberate Metrics, Monitoring, and Reporting Structured systemic methods of measuring and communicating impact are used for implementation of world benefit agenda.</td>
<td></td>
</tr>
</tbody>
</table>
Strategic Partnerships
Partners for implementation of world benefit agenda are chosen to assure elevation and acceleration of innovation and impact.

Parity Relationships with Partners
Relationships with partners are built on the principle of equality to assure even distribution of responsibility and commitment.

Partnerships of Elevation
Partners for implementation of world benefit agenda are chosen to assure elevation and acceleration of innovation and impact.

**Partnerships of Elevation**
Partners for implementation of world benefit agenda are chosen to assure elevation and acceleration of innovation and impact.

In the action-oriented domain of tools and practices, two cases suggested the importance of metrics and reporting, while the third case highlighted an innovative metric. Thus, “Deliberate Metrics, Monitoring, and Reporting” was chosen as a synthesis. The crucial role of partnerships was highlighted in all three cases, so “Partnerships of Elevation” was chosen as a combine ‘rule’ of innovation. Table 9 offers in-depth review of the rules of successful innovation for world benefit, which represent the synthesis of the life-giving forces suggested by the case studies in the present study.
## Table 9 Rules for Successful Business Innovation for World Benefit

| Leadership | Commitment of Executive Management | Description | Top management of a company provides substantial support for implementation of the world benefit agenda. Such support manifests itself through deep understanding of the issues and tasks at stake, hands-on participation in decision-making and implementation, or proactive bridge-building between the world benefit efforts and the rest of business functions. |
| Boundary-Less Leadership | Illustrative Data Point | “While some question the place of concern for community in the business of business, this is not what we stand for and believe in. Investing into community is what we believe in,” Daulet Sembaev, Deputy Chair for the Board of Directors of Kazkommertsbank. |
| | Description | Leaders driving the innovation use their core expertise in service of world beyond the boundaries of their organizations or any other professional organizations. Therefore, creating world benefit stands among the core motivators for business activity. |
| | Illustrative Data Point | “We are committed to developing properly the infrastructure, mechanics, and rules governing Russia’s capital markets. For us at Troika Dialog, Russia is not a hedge, weighting, or a fly-by-night venture; it is our home, and we are dedicated to building a bright future for it,” Troika Dialog Identity Statement. |
**Organizing Principles**

<table>
<thead>
<tr>
<th>Integration Into Core Business</th>
<th>Description</th>
<th>The world benefit agenda is integrated into core business strategy and implemented via business tools and mechanisms. Employees, customers, investors, product development and business processes all serve as sources of sustainable value for business and society.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Illustrative Data Point</td>
<td>“Corporate Social Responsibility is an economic category, which presumes pragmatic benefits for the company. CSR cannot be imposed by government, but has to serve as an element of the overall strategy and economic behavior of the corporation,” Vasilii Kiselev, Vice-President, SUAL Holding.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Comprehensive Strategy</th>
<th>Description</th>
<th>The implementation of the world benefit agenda starts with a comprehensive strategy tailored to specific contexts. Such strategy addresses a number of interrelated issues simultaneously, and offers systematic solutions that create synergy and deliberate long-term effect.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Illustrative Data Point</td>
<td>“At the time we have started, any concept of strategic or systematic planning for local community development was virtually absent. So, considering that every program component and element would produce results and bring about ‘lessons learned’ with strategic implications, it came natural that all work would come together via a comprehensive systematic multi-year development plan. Rooted in community dialogue, and extracted from the pilot efforts, such plan would evoke strategic thinking and mindful decision-making,” Olga Fedoseeva, Head of Federal and Local Authorities Interaction Department, SUAL Holding.</td>
<td></td>
</tr>
</tbody>
</table>
## Deliberate Metrics, Monitoring, and Reporting

**Description** Structured systemic methods of measuring and communicating impact are used for implementation of world benefit agenda. In addition to effective measurement of social impact, invention of effective metrics for measuring business impact is crucial for sustainable business commitment to world benefit agenda.

**Illustrative Data Point** “Troika has been monitoring corporate governance behavior since 1998, and the World Economic Forum initiative seem to be a right fit for escalating our efforts to a new level. Now we could participate in a market-wide change initiative by doing what we do best: performance monitoring and analysis”, Mikhail Tabakov, Corporate Governance Coordinator, Troika Dialog.

## Partnerships of Elevation

**Description** Partners for implementation of world benefit agenda are chosen to assure elevation and acceleration of innovation and impact. Rather than partnering for re-distribution of responsibility, partnering for elevation expands the scope of responsibility, and allows to connect unique strengths and opportunities for increased impact.

**Illustrative Data Point** “Kazkommertsbank had long been at the forefront of community engagement and corporate social investment in Kazakhstan, and we collaborated before successfully. However, as it is the case with most of Kazakh companies, the Bank’s activity in this domain had a somewhat sporadic nature. So, when they invited us to engage in the development of a new corporate foundation and share our expertise in the area of grant program development and management, we were happy to do so,” Andrew Wilson, President, the Eurasia Foundation of Central Asia

As the data analysis led to crystallization of the “Rules for Successful Business Innovation for World Benefit”, I found myself struck by an unexpected discovery. While
all six ‘rules’ made sense and appeared to be a very practical reflection of the data on hand, this extraction seemed to miss one very important “factor or force that contribute to successful integration of the business and society benefit”, namely the paradigm, the frame of reference, the mental model that defines and contains the move from disparate business efforts and social activities towards an integrated strategy for business and society. In other words, all the success factors or ‘rules’ identified to this point seem to rest on some yet invisible frame of assumptions that guide and hold them together, or serve as pre-requisite for any rule to be re-enacted or step to be made.

This discovery led to a new level of analysis across the case studies and data they are built on, resulting in a new set of exciting propositions about the “state of mind” necessary to merge business and social benefit in the post-USSR context.
CHAPTER 7
The Mutual Benefit State of Mind: A Few Propositions

I have been searching for the factors and forces that allow for successful integration of business impact and world benefit in the context of the post-USSR society. The three stories of innovations at study suggest the importance of the following elements of a mindset, paradigm, or philosophy around the relationship of private sector and the rest of the world.

Proposition #1: Reconstruction of Society as Business Imperative

The disintegrated state of a post-Soviet society demands a pro-active, rather than re-active, role of business in the re-design, re-architecture, and re-construction of societal structures. In the absence of significant skills, resources, and agility among governmental agencies and civil society, the naturally adaptive, innovative, and entrepreneurial private institutions have the best capability – and the highest vested interest – in developing stable, predictable, and fair setting to operate within. Companies and individuals that embrace the role of co-architects increase their ability to define and mold their environment, which in turn leads to maximization of business benefit and re-building of the society at large.

Seventy years of administrative economy and state control over resources, freedoms, and information left deep marks in the ways of being of post-USSR societies, among them – a prevailing sense of apathy, reactivity, and expectation for an outside solution to all problems. While post-soviet entrepreneurs deviate from this omni-present culture of
apathy and dependency by the mere fact of starting a self-reliant business venture, few individuals or organizations take this approach beyond their own benefit, and venture into pro-active leadership at the level of community, industry, or society at large.

The entrepreneurs of the three companies that have successfully created mutual benefit for business and the rest of society – Kazkommertsbank, SUAL Holding, and Troika Dialog – have consistently chosen to take ownership and leadership beyond their organizational boundaries into the environments they operate within.

Kazkommertsbank (KKB) has been largely acknowledged as the most innovative company in Kazakhstan\(^{33}\). As highlighted in the case study, KKB is responsible for starting such now widely accepted trends as independent third party auditing, telephone and internet banking, capital expansion through international Initial Public Offerings, and non-financial reporting. The company is aware of its role as the innovator for the new economy, and takes pride in its ability to develop, assimilate, or integrate ideas deemed novel for Kazkh economy and society. Gulshat Baimuratova, Executive Director of Kus Zholy Community Charity Foundation, explains:

“The great thing about Kazkommertsbank culture is that we are proactive about innovation and integration of the best practices into our processes and projects. There have been many occasions when our team participated in international CSR projects as a part of a larger group of Kazakh professionals; and while on the way back our team would brainstorm on the newest ideas and changes to launch, our colleagues from other companies would openly share their frustration with inability to bring any change to their home institutions. At the same time, it has been an accepted expectation for Kazkommertsbank to be the one to implement

\(^{33}\) See Chapter 3 for detail and extensive references for this statement.
and test new approaches and solutions, and once we have it going, others quickly follow.”

Kazkommertsbank’s most recent business-in-society innovation, the first corporate philanthropic foundation in the Central Asian region, represented a skillful approach to managing societal expectations and optimizing relationships with government. Since its inception, KKB was facing extreme societal demands manifested via thousands of requests for financial assistance received monthly; additionally, the Bank was forced to provide financial assistance to local and national governmental agencies, with no access to decision making around use of the resources granted, and no accountability measures to track the impact. Creation of Kus Zholy Community Charity Foundation, while a hefty multi-year task, allowed for establishment of transparent standard procedures, and introduced an idea of specific program and merit-based grantee selection to the general public. Gulshat Baimuratova clarifies:

“The dissatisfaction with the use and impact of the resources allocated to social needs by Kazkommertsbank in its early years of existence was the real push behind the establishment of a formal charity foundation. However, our transition from traditional philanthropy to strategic approach to social development was made during, rather than before, the establishment of Kus Zholy. First we got clear about making philanthropy systemic and systematic, and then, about a year into it, we realized that we have a larger role, and that our work should take shape of a business model.”

Kus Zholy staff partnered with various non-profit organizations to provide information, advice, and clarification to general public, promotion the culture of mutual accountability and strategic philanthropy to civic society in Kazakhstan. Furthermore, Kus Zholy took one the issues of corruption and accountability in business-government relations by launching the idea of contract as a requirement for all government collaborations, giving the company legal control over allocation and impact of resources.
According to Andrew Wilson of the Eurasia Foundation of Central Asia, Kazkommertsbank example made the notion of corporate foundation appealing to other companies across industries, who specifically site KKB’s ability to achieve strong social and business impact as the core motivator to follow the Bank’s lead. Meanwhile, according to Gulshat Baimuratova of Kazkommertsbank and Kuz Zholy Foundation, the spread of the standards of strategic and systematic corporate giving has assured increased quality of grant applications, and yielded new corporate partnerships for magnified impact and more efficient use of resources. In other terms, the company managed to mold corporate responsibility standards and expectations among government, private sector, civil society and public at large; and, by doing so, creating a more efficient, collaborative, and transparent environment for its own operations34.

While Kazkommertsbank used its own example to strategically mold and design the constitution and workings of its environment, Troika Dialog worked outside its organizational borders to create new institutions, structures, and systems at the level of the nation. Between 1994 and 2000, the company played a leading role in the establishment the most important financial structures and institutions, including facilitating the launch of the National Association of Brokers and Dealers (NAUFoR)35, co-founding the Depository Clearing Company36, facilitating the establishment of the two

34 Interviews with G. Baimuratova & A. Wilson


leading Russian stock exchanges, the RTS and the Moscow Stock Exchange\textsuperscript{37}, and the launch of the Corporate Governance Committee of the Bureau of the Russian Union of Industrialists and Entrepreneurs, the most prominent business association in Russia. Ruben Vardanian, Chairman of the Board and company co-founder, spells out the reasons for this “extra-curricular activities”:

“From the beginning, we as a company understood that being successful was not only about our own success, but also about creating an environment where our strengths could be realized to the fullest potential. So, the more transparency and stability we have in the rules of the game, the stronger our competitive advantage gets... The 90’s were the years of early capital accumulation where one system was disintegrating, and another - emerging. In such a context it seemed that there was no right or wrong, and anything could be used in the name of survival; jungle ruled... Surviving economic jungle is not our core competence. So what unites many of our seemingly diverse initiatives – the stock market involvement, professional organizations establishment, corporate governances work – is our effort to mold the environment into a transparent, simple, fair system.”

Troika’s work with the development and promotion of the Corporate Governance Investment Risk Profiles served as a perfect extension of company’s role as a co-architect of Russian economy, as the Profiles allowed to bring benefits at the level of company, investor community, private sector at large, and the general public. At the level of company, the profiles allow to improve the quality of financial services offered by the investment bank. At the level of investment community, the company made the high standards of corporate governance the new accepted reality for national and international investors. At the level of economy as a whole, the profiles of 60 largest companies in the country represent a cut across all industries, with high expectations for corporate governance penetrating through the entire private sector. At the level of general public,

\textsuperscript{37} From \textit{Ruben Vardanian at the Helm of Troika Dialog}, © INSEAD, 2003.
the company’s partnership with the World Economic Forum allowed for quick dissemination of the concept and benefits of corporate governance through general media, and facilitated public awareness and civic society engagement around the practicalities of business ethics and standards. The company solidifies all its efforts with the work on changing the rules of the game, collaborating closely, as Mikhail Tabakov, Troika’s corporate governance coordinator, suggests, with governmental agencies on laws and regulations around these issues:

“Troika’s role in the advancement of the corporate governance in Russia also touches the issues of legislation. Government has increased its interest in this topic, and we actively participate in the development of new laws and regulations, provide in-depth review of proposed changes and adjustments, and such.”

Like Troika Dialog, SUAL Holding made significant efforts to create structural and institutional changes outside of its organizational boundaries; however, SUAL have chosen local, rather than national level, as the point of entry for transformation in a bottom-up, rather than top-down fashion. The company has decided to address the extreme dependency of communities it operates within by launching a comprehensive developmental program aimed at promoting government efficiency, small and medium enterprise advancement, ecological restoration, education and health systems strengthening, and beyond. In partnership with United States Agency for International Development, SUAL hired experts to consult local municipal authorities on issues of budget planning and fiscal efficiency, to catalyze development of new legislation in support of positive socio-economic development, to foster relationship between government and civil society, and to promote access to information and resources among local entrepreneurs. As all the components of the program were deliberately coordinated
to assure synergies and communication, the company managed to re-shape the laws, relationships, and institutions of specific communities in a radical manner\(^\text{38}\). This pro-active solution to a prevailing issue of dependency allowed the company to reap benefits for itself, as well, as SUAL was able to cut its potential expenses by 75%, attracting 3 dollars for every dollar spent in each of the target communities\(^\text{39}\). What is particularly interesting about SUAL experience, is that the company’s proactive role in society is built on deep understanding of interdependencies of company success and societal success.

The words of Vasiliy Kiselev, Vice-President of SUAL Group, speak volume to the depth of this understanding:

“If I think big picture and the future of business in Russia, there are only two questions – education and health. If you go into health, you will immediately have to deal with ecology, local, national, and international. If you deal with education, you would have to dive deeply into the entire context and development – so if you want to understand why the local specialists don’t have basic skills and competencies, you will have to go into the entire context, its history, economy, culture, and politics. So health and education account for at least 80, if not all 100, percent of all issues. And here, we think of both issues in the widest possible way – it’s the entire culture shift, mental shift. Let’s take our mayors – after our programs, the mayors of local cities are now writing letters differently. If before all they would say is just “give me,” now they invite us into a partnership, into a well-thought out and developed concept with clear goals, methods, etc, and they spend time thinking of what is the advantage for us, SUAL, why would a project be interesting and beneficial for us, even if it is not our project in pure terms. This is a result of education, in the broadest possible meaning of the word ‘education’.”

Whether making internal changes to lead by example, or taking part in creation of external institutions for societal benefit, whether working at the national level, or targeting one community at a time, what seems to be universal for organizations and

\(^{38}\) See Chapter 4 for more information in support of this claim.
\(^{39}\) See Chapter 4 for more information in support of this claim.
individuals behind each business innovation that successfully integrates commercial and social benefit in the former USSR is the choice to take a pro-active role in co-designing, co-engineering, and co-creating the dismantled society.

Proposition #2: Continuity of Human Values

In the context of massive societal change ongoing in the post-USSR block, creation of mutual benefit for business and society depends on the ability of private sector to facilitate such change by providing continuity for values and beliefs permeating the Soviet mindset. To maximize the level of mutual benefit, a company must connect the existing post-Soviet pre-disposition for the “betterment of the whole”, which stands at the core of the communist value system, with the strength of individual responsibility for achieving results, which drives the capitalist markets of the west. The companies that succeed at connecting “the best of the old” with “the best of the new” are rewarded via better employee engagement, increased loyalty, enhanced government relations, improved customer reliability, and increased investor interest.

While the conscious choice to be a pro-active force in the post-Soviet society may appear as a hefty task, the history of this region frames a receptive environment for the ideas of mutual benefit for business and society. Communism as a philosophy is built on the idea of equity and equality for all, and while the collapse of the system left little room for structures and principles of the past, the ideals of justice and benefit for all still holds a tremendous value for the former Soviets, including its youngest generation, born during or after Perestroika. The 2006 survey of VTsIOM (the All-Russia Center for Public Opinion Research), social justice ranks as the number one political ideal for Russian
residents between 18 and 34 years of age (Russia Profile, 2006). Yet, most of the post-communist systems and structures, including for-profit ventures, leave little room for realization of these ideals. A 2004 article by David Harrison and Patsy Lewellyn speak volume to this unfolding historical reality with a small Russian city of Sarov as an example:

“When considering ethics in Russia, one must first understand that the Soviets' high levels of social consciousness and ethical standards were rigorously promoted to citizens, especially within Sarov, supporting the important defense work the city carried out. Although the Soviet line of collective good may have worn down with the passing of time and the continued tragedies of Russian leaders, both pre- and postrevolution (1917), the message was less diluted in cities like Sarov, with its system of Soviet-era privileges and a direct role in national defense. The residents of Sarov sincerely believed their city's contribution to world peace was real and meaningful through the concept of MAD, "mutually assured destruction. Such ethical standards created a sense of local pride in the people of Sarov. Soviet education and training programs continually reinforced these beliefs. The change, along with the major change in economic and political systems, has left something of a vacuum where the sense of ethics and pride in the mission had existed previously. Their identity was diminished and was replaced with the promise of capitalism and freedom, yet no clear path toward progress and success was apparent, or even relevant, to many.” (Harrison & Lewellyn, 2004, p.27).

The companies and individuals behind successful business innovations for social benefit used this natural pre-disposition to social justice and thrive for betterment of the whole, allowing their diverse stakeholders to ‘plug in’ the values and ideals left in the vacuum by the collapse.

In case of SUAL Holding, which consists of 20 companies spanned across 9 rural regions of Russia and Ukraine, the idea of providing channels for inherent social consciousness hit home when conflict arose between local factory management and national executives at the headquarter level. While the top executives understood the unsustainable nature of the dependency relationships between its factories and local communities, the local
factory directors refused to cut their support for clinics, schools, road repair, and other community needs. Realizing that there is a value system at stake, the company president and vice presidents decided to develop an infrastructure that would allow connecting the commitment to social good with the effective strategic action at the local level. The resulting “Complex Socio-Economic Development in the Regions of SUAL Holding Presence” program, run in partnership with United States Agency for International Development (USAID), connected existing local, regional, national and international resources to increase the amount of social investment in three pilot cities, but at the same time decreased the total SUAL expenses by 75%. Irina Lapidus, Portfolio Manager at the Department of Social Policy and Business Development, at the New Eurasia Foundation, and SUAL-USAID program facilitator, confirms:

“What has been particularly challenging and remarkable about this project is the effort to combine the unequivocal commitment to local communities with the needs and goals of a competitive international business venture. The local factory directors were vigilant about protecting SUAL’s responsibilities, so the headquarters were smart to honor that, and, at the same time, turn this commitment into systematic, strategic, and effective program.”

In addition to addressing the needs of its own employees, SUAL-USAID Program allowed to channel the personal values of other stakeholders, with particular investment into development of self-sustaining institutions of civic society. The Program included many efforts aimed at connecting social justice ideals with personal responsibility⁴⁰, among them the establishment of “Kindness Week” in each of the pilot communities to address infrastructure repair needs on volunteer basis, and the launch of community charity foundations, aimed at connecting local financial resources and local needs via

⁴⁰ See Chapter 4 for more information on specific projects and initiatives in support of this claim.
competitive grant programs open to all community members. As a result, the citizens in each pilot cite gained a fair transparent mechanism for channeling their commitment to the betterment of the whole, while the company set itself free from sourcing and managing multiple projects necessary for community sustenance. SUAL Group also understood its role as connector and facilitator of a major cultural shift around values and expectations, and as Vasiliy Kiselev, Vice-President of SUAL Group, shows, framed its work in these terms:

“The standard approaches to socio-economic development in Russia are about blaming everyone else – the mayor, the government, the president – anybody but oneself. It’s been 15 years, but we are still where we were. Moses had to take time for two generations to pass before mentality was changed, so it looks like we will also have to wait for generations for this passivity and blame game to pass. But if there is anything I know, is that the best way to change this mentality is not through round tables, forums, and symposiums, but through hands-on work around specific projects, and as you work on projects, people change.”

SUAL-USAID success at connecting social concerns with personal responsibility in rural Russia was echoed in the work of Kazkommertsbank’s Community Charity Foundation “Kus Zholy.” Just like its Russian counterpart, Kus Zholy was able to allow room for personal values of its employees internally, and created channels for individual action for social good for its other stakeholders externally. Bank’s own employees carry out the core activities of the Foundation via the Volunteer Committee, which is responsible for everything from planning to driving. The blurred organizational line between the Bank and the Foundation offers company’s employees connect their sense of meaning and purpose with their professional engagement. Aigerim Muhamediyarova, Commercial Assistant at the Almaty Branch of Kazkommertsbank, and Kus Zholy volunteer, explains:

41 See Chapter 4 for more information in support of this claim.
“At the time that the Volunteer Committee was created, a lot of warmth was accumulated within the company, warmth that needed to be channeled. For about 15 years now Kazkommertsbank has allowed thousands of young driven professionals to stand on their own feet – all by developing skills, building relationships, and earning a reliable income. We were making good money, had stability and respect in the society, but we did not forget where we came from. So, the Foundation and the committee is an opportunity to direct our efforts, but not in a one-time material-type support manner, but rather do something that deals with the root of the issue in a long-term fashion. In other words, what “Kus Zholy” allows us to do is to extend the great gifts we received to the general public, so that others can also get a break, learn how to succeed, and, with time, stand up, and be ok.”

Another Kazkommertsbank employee and “Kus Zholy” volunteer, Dina Nurpeisova, illustrates the connection of personal and societal histories in a more personal way:

“The Foundation allows me to walk my personal journey to the deepest understanding of such simple concepts as motherland and honor, and I am touched that I am not along on this path. Many of our efforts – take the engagement with the veterans of the World War Two – help me get clear on what is really important in life. In 2005, at the 60th celebration of the Victory, we took a large group to the concert, and there was a moment when the announcement of Nazi occupation was re-enacted. In that moment, the veteran I was with started crying, silently. And it made it so real for me – what was the War about for him, and what it is for me. It put everything into perspective.”

What distinguishes “Kus Zholy” approach for plugging into the innate social consciousness of post-soviets from SUAL-USAID approach is the distribution of responsibility. SUAL-USAID partnership channeled most of responsibility for positive change from inside out, doing most of the work within the realm of partnership, and allowing some channels for general “external” public to plug into the development process. By contrast, Kazkommertsbank Kus Zholy efforts placed most of responsibility for implementing positive change onto the public at large, and created solid infrastructure and diverse resources as a means for starting up and supporting the change process.
Grant programs, information sessions, extensive online resources, and personalized attention of Foundation’s employees, volunteers, and partners, all serve as a supporting mechanism for hundreds of diverse projects proposed by the public and granted by Kus Zholy.

While both SUAIL-USAID program and Kazkommertsbank’s Kus Zholy Community Charity Foundation ignited some combination of external and internal responsibility for the betterment of the whole, Troika Dialog have chosen to contain most of its efforts within its organizational boundaries; the company’s “Identity Statement” served as the primary mechanism for connecting the existing predisposition for societal consciousness with individual responsibility for all of its employees.

In 1994 Troika Dialog devised a formal values statement, called “Our Identity. The five-principle statement put fairness, trust, and integrity at the foundation of Troika’s operation, while the clause of “Commitment to Russia” defined a mindset of long-term value creation and servant leadership:

“We are committed to developing properly the infrastructure, mechanics, and rules governing Russia’s capital markets. For us at Troika Dialog, Russia is not a hedge, weighting, or a fly-by-night venture; it is our home, and we are dedicated to building a bright future for it.”

Since the launch of the Identity Statement, all new employees have been required to memorize its clauses, which are often used as a guide in company discussions and ethical situations. The Identity manifesto was also backed up the “Rules for Everyone”, an extensive list of clear explicit guidelines, such as “We win or lose together so don’t ever
say “That’s not my problem.” Together, “Our Identity” and “Rules for Everyone” molded the culture of Troika Dialog, carrying the “common good” philosophy beyond its corporate boundaries into relationship with the market and the society as a whole.

The Identity Statement has been tested throughout the company run through the turbulent years of the new Russian economy, creating a unique collaborative organizational culture built on high commitment to a cause larger than any individual or the company itself. This culture was best tested during the economic crisis of 1998 that shook the young Russian market to its core. Troika was forced to take multiple measures to protect its existence, including major salary cut throughout the company. However, with the advice of Western executives, company leadership decided to keep the salaries of the traders - the key revenue-generators of the company. As the traders learned of the decision, they demanded a full and fair salary cut - marking the true transformation of corporate culture.

While most of Troika’s intense efforts around human values stayed within its organizational boundaries, the company leadership understood the extension of its overall corporate governance efforts in the context of the overall societal value system:

“Corporate governance is directly connected to the overall moral development of the environment, to the tacit, informal rules of what is good and what is bad, and creating these norms around what is tolerated and what is not is a very detailed, tiresome, demanding task. We may complain all we want about corruption among police, but if we are the first ones to offer the bribe when we are stopped, we are the enablers of the system.”

42 From Ruben Vardanian at the Helm of Troika Dialog, © INSEAD, 2003.

43 From Ruben Vardanian at the Helm of Troika Dialog, © INSEAD, 2003.
Troika Dialog’s corporate governance and financial discipline work became the mechanism for establishment of the new rules of the game and creating the boundaries of tolerance and intolerance for particular actions of the corporate world.

Whether creating internal infrastructures for connecting personal passions and organizational priorities for company employees, or providing support and resources for the general public’s urge for social equity and justice, what unites all innovative solutions for merging business benefit and societal impact in the former USSR is the ability to connect the existing value system with the needs and realities of the emerging market economy.

**Proposition #3 Harvesting Business Value from Information**

*In a context of sudden information explosion that characterizes the transition from complete censorship of communist regime to open access of an emerging democracy, private sector is required to develop strategic and systematic approach to information sharing and management. Creating sustainable infrastructures for transparency, clear metrics, and open information flow allows for maximization of business benefits and social effect.*

When the concept of communism was first introduced to the region that later comprised the Union of Soviet Socialist Republics, it was regarded as a wind of justice, freedom, and emancipation. Seventy years later, at the time of USSR disintegration, the landscape of the society was rather far from these espoused goals. The government has put
immense measures to control information flow between and within national borders. All international interactions had been tightly controlled by various censorship agencies; with no phone calls, mail, or travel outside the country allowed without screening and explicit permission. Within the national borders, the government has built equally significant structures for controlling free flow of information and decision making in families, groups, organizations, and society at large. All media, including print (periodic and books), radio, theater, art, film, and television was censored, with significant portion of pieces shelved and prohibited for circulation. All organizations were owned and operated by the government, with no private land or property allowed; personal job positions were distributed upon graduation from schools and universities, with little room for personal choice allowed. In the context of such tight control, individuals had little access to any reliable non-censored information, and faced severe consequences, including loss of jobs and personal dwellings, if the internal or external information curtains were penetrated.

The collapse of the USSR brought about sudden and unruly information storm, with all existing social, informational, and legal structures collapsing, and new structures emerging in an uneven and unreliable manner. Private ownership of media channels, efforts to create transparent democratic governance, and emerging presence of Internet all contributed to development of a highly flexible, increasingly open, and information-rich environment. Managing the information flow became a core activity for organizations thriving for sustainable success for business and societal advantage in the former USSR.

Troika Dialog’s Corporate Governance Investment Risks Profiling is a perfect example of an innovative business practice that has transformed the power of information into a
strategic business advantage – and an immense mechanism for lasting societal change. The Investment Risks Profiles organize crucial information about sixty largest corporations of Russia into easy to use, reliable investment tool, which, over the past five years, has single-handedly changed the standard of business ethics and corporate governance in the nation. Troika has utilized all dimensions of effective information management - systematic collection, in-depth analysis, and strategic dissemination – to provide unique benefits to its own brokers, external investors, traded companies, and the public at large. While the company was able to control the first two steps of information processing, creating mechanisms for superior data collection and analysis, the public buy-in for the final product, the profiles, however, was out of its immediate control. To address this challenge, Troika partnered with the World Economic Forum Corporate Governance Initiative to increase the status of its analysis via the means of WEF endorsement, and to channel pre-existing media attention to the role of Russian delegation at the annual World Economic Forum to distribute information about Corporate Governance Profiles. Mikhail Tabakov, Troika’s Corporate Governance coordinator, explains:

“Troika has been monitoring corporate governance behavior since 1998, and the World Economic Forum initiative seem to be a right fit for escalating our efforts to a new level. Now we could participate in a market-wide change initiative by doing what we do best: performance monitoring and analysis. So, what worked best for us is adopting the existing WEF Corporate Governance Principles for Russian realities via a series of dialogues among Russia’s most prominent managers and business owners, and offering Troika’s profiles as a means of accountability for all Principles signatories. The validity of the WEF enterprise coupled with thorough engagement of local change-makers served as a platform for launching the new standards of governance at the level of the entire economy.”

---

44 See Chapter 5 for more information in support of this claim.
The 2001 launch of the WEF Russia Corporate Governance Initiative allowed creating significant momentum for establishment of new standards of corporate behavior. The initiative was positioned as a public effort, with options for voluntary participation, and full access to the initiative reports via public websites, conferences, and general media. As such, the effort primarily resulted in creation of social impact, with little-to-no direct benefits to Troika Dialog. Once the company established public awareness and business community buy-in, it has turned the profiles into a private venture, offered as an exclusive service to company’s customers, marrying already created social impact with an opportunity for significant business benefit. Elena Krasnitskaya, Corporate Governance Analyst, illustrates:

“Initially, we had to do immense amount of work to communicate around the concept of corporate governance and its business implications, so I had to spend significant time with both, companies rated and the investing clients, to get the message across. This work has been very fruitful, as the corporate governance investment risk rating has been among our most popular research products for a few years now.”

Troika’s Kazakh counterpart, Kazkommertsbank, has also relied heavily on the many facets of information management. While it has implemented a number of information-rich projects aimed at creation of sustainable social benefit (including informative website, transparent grant application and selection procedures, and ongoing training sessions for increased public-private collaboration), the Bank’s most intensive information-processing efforts lie in the domain of business benefit. Kazkommertsbank’s relationship with society is carried out via its Community Charity Foundation Kus Zholy. Traditionally, corporate foundations fall into the domain of traditional philanthropy,
which are primarily focused on social impact, with limited business benefits built in⁴⁵. Kazkommertsbank invented a way to harvest the power of information into a valuable tool for monitoring and measuring Kus Zholy’s business effect, using a one-figure metric to measure “reputational dividends” accrued as a result of any particular activity. According to the industry standard, all positive media coverage associated with a particular private organization is not released without a charge to the private organization. In contrast to this unhealthy practice, the foundation generally does not pay for articles and TV segments showcasing its activity, but tracks all media releases to measure brand-building impact. To calculate the metric, Kus Zholy estimates the market value of free media coverage, and uses the sum total as a measurement of Kus Zholy’s business benefit. While this particular monitoring activity requires significant man-hour input, its results provide a common language to connect the leadership of the Bank with the leadership of the Foundation. As a result, Kus Zholy has enjoyed the status of “normal” Bank activity domain, discussed and attended to by the Bank Managing Board on par with other business activities of the company.

Unlike Troika Dialog and Kazkommertsbank, SUAL Holding’s business innovation for social good did not use information as a direct source of business or societal benefit; however, information has played a crucial facilitator role for the Complex Socio-Economic Development Program. The program conveners, SUAL Holding and USAID, created deliberate mechanisms for fast and effective information flow between numerous project partners. For each of the three pilot cites, the program has engaged eleven national and international partners, along with 10-20 regional and local partners, all

⁴⁵ Please, see Chapter 1 for in-depth discussion of the level of mutual benefit created by various business-in-society mechanisms, including compliance, philanthropy, Corporate Social Responsibility, sustainability, and beyond.
building on each others work and carrying out inter-related activities. So, to provide continuity between the disparate activities of all partners, the Program offered separate information exchange channels at the national and local levels. At the headquarters level, the program is overseen by the Coordinating Council for Social Partnership, comprised of the heads of local government agencies, SUAL executives, and directors of its local facilities. At the local community level, coordinating groups have been created to represent community stakeholders, such as government, local factory representatives, local civic organizations, citizens, and other interested parties. Connecting the different levels of organizing is the New Eurasia Foundation, which has been serving as a communication facilitator for the overall project, working in close relationships with the two program co-directors representing each of the conveners – SUAL Group and USAID. Irina Lapidus, Portfolio Manager at the Department of Social Policy and Business Development, The New Eurasia Foundation, and SUAL-USAID program facilitator, explains:

“While the New Eurasia Foundation has had experiences of collaborating with private enterprises in the area of social development, the Complex Socio-Economic Development Program was by far our most comprehensive and demanding project. The number of partners involved and events managed made it particularly tricky. So, we made it easier by creating one unified monthly plan of all events and activities taken place in all regions. This allowed us to coordinate and connect the experts that were working in the related domains: for example, we have developed close relationships and common events or projects between the Charities Aids Foundation-Russia and Siberian Civic Initiative Support Center, as both expert organizations work on increasing the engagement of local communities in the process of accumulation and distribution of local philanthropic resources. Furthermore, we have created a comprehensive website hosting most recent updates and resources for the many partners of the project.”
According to the Program conveners, SUAL-USAID artful use of information played a significant role in achieving positive results in each of the three pilot sites\textsuperscript{46}. Treating information as core organizational resource, coupled with deliberate management of the information flow, resulted in increased synergies, enhanced cross-organizational learning, and improved efficiency for the program and its many constituencies. Notably, the partners have consciously chosen to limit public relations and marketing efforts related to the project, staying away from a more traditional use of information for business or societal benefit, displayed by the other two examples.

Put together, the three propositions offered here comprise a philosophy, a mental model, a framework necessary for achieving successful integration of business benefit and positive social impact. This framework serves as a pre-requisite for any action steps or rules of organization; coupled together, the philosophical framework and the practical steps comprise a post-USSR model of mutual benefit for business and society.

\textsuperscript{46} See Chapter 4 for more information in support of this claim.
Words create worlds, suggests common wisdom, summarizing eloquently in a short simple phrase decades of social constructionist thought from Berger & Luckmann (1967) to Gergen (1999) and beyond. In the domain of business and society relationship, the words have offered a wide array of worlds to choose from. From the first timid attempts of Bowen (1953) to establish “obligations of businessmen… to follow those lines of action which are desirable in terms of the objectives and values of our society” (p.6), to the mature efforts of Waddock (2004) to optimize “the degree of (ir)responsibility manifested in a company’s strategies and operating practices as they impact stakeholders and the natural environment” (p.10), Corporate Social Responsibility, along with Corporate Social Performance (Carroll, 1979), Corporate Citizenship (Waddock, 2004), and stakeholder theory (Freeman, 1984) have been offering the reality built on obligation, charity, and service. The mainstream shareholder value approach, manifested most notably in the assertion of Friedman (1962, 1970) that “the business of corporations is business”, has been responding to the call for social responsibility and obligation with strong opposition; thus, profit maximization is the cornerstone of this reality. In an effort to pacify this seeming conflict between private profit and public benefit, sustainability, or sustainable development, offered a vision of reality based on balance and justice, calling for “a process of achieving human development in an inclusive, connected, equitable, prudent and secure manner” (Gladwin, Kennelly, & Krause, 1995, p.878).

While academia battles over the right words to model the optimal relationship between business and the rest of society, the ‘common folk’ casts its vote by using – or dropping –
words from its day-to-day conversations. Across centuries and continents, people have made up words to define the place of trade, production, and profit in the larger schema of life. The ancient Swidish term for business is *narings liv*, which literally means ‘nourishment for live’ (Albion, 2000). Russian word *delo*, traditionally used to signify business, means ‘purpose’ or ‘calling’ (Gramota.Ru, 2007). The English word *business* itself, which has made a long journey from its rare appearances in 1727 (Online Etymology Dictionary, 2007) to the universal dominance in 2007, derives its meaning from *bisig*, which means ‘careful’, ‘anxious’, ‘busy’, and ‘occupied’ (American Heritage Dictionary, 2007; Online Etymology Dictionary, 2007). From purpose and nourishment to busyness and anxiety, isn’t it a surprising world we have created?

In the spirit of renewal and emergence characterizing the social, economical, political, and historical reality of the former Union of Soviet Socialist Republics, I have set forth this inquiry beyond the limitation of *the world that has been created* to the horizon of *the world that could be*. Inspired by the visionary affirmation of Kropotkin (1993) that “in the ethical progress of man, mutual support – not mutual struggle – has had the leading part,” I have framed this inquiry by a simple question: what is the best way to create mutual benefit and win-win in the relationship between business and the rest of the former communist society? In other words, what are the factors and forces that allow for successful integration of business impact and world benefit in the context of the former USSR?

The data, which flowed in response to the question, suggested a number of core elements allowing for deep synergy between business and the rest of society; two new words - *mutual benefit* – began to fill up with substance, offering a glimpse of a new world possible.
Putting it All Together

The histories of the three organizations, used as core data for this inquiry, suggest two levels of forces that seem of relevance to the success of creation of mutual benefit for business and the rest of society in the former USSR. The first level touches upon elements of philosophy, mind-set, or paradigm, and second at the level deals with organizing principles, rules of engagement, and practice. As such, the first level manifests “the what”, while the second level deals with “the how” of the mutual benefit approach to the intersection of business and society at large.

Exhibit 8.1 offers a synthesis of the analysis performed; with the two levels of success factors and life-giving forces comprising a more whole and complex view of successful integration of business and society benefit in the former USSR. While the specific elements of this panorama may interact between each other, the data available have not provided enough evidence to establish links and relationships between specific elements that would allow developing a dynamic model.

Level 1 highlights elements relevant to the mindset, philosophy, or paradigm that frames one’s understanding of relationship between business and the rest of society; Reconstruction of Society as Business Imperative, Continuity of Human Values, and Harvesting Business Value from Information, comprise Level 1.

Level 2 focuses on the more practical aspects of successful mutual benefit creation; Commitment of Executive Management, Boundary-Less Leadership, Integration Into Core Business, Comprehensive Strategy, Deliberate Metrics, Monitoring & Reporting, and Partnerships of Elevation comprise this level.
At the level of “what” of the *mutual benefit* approach, the findings suggest the following propositions:

- *Reconstruction of Society as Business Imperative* - the disintegrated state of a post-Soviet society demands a pro-active, rather than re-active, role of business in the re-design, re-architecture, and re-construction of societal structures. In the absence of significant skills, resources, and agility among governmental agencies and civil society, the naturally adaptive, innovative, and entrepreneurial private institutions have the best capability – and the highest vested interest – in developing stable, predictable, and fair setting to operate within. Companies and individuals that embrace the role of co-architects increase their ability to define
and mold their environment, which in turn leads to maximization of business benefit and re-building of the society at large;

- **Continuity of Human Values** - in the context of massive societal change ongoing in the post-USSR block, creation of mutual benefit for business and society depends on the ability of private sector to facilitate such change by providing continuity for values and beliefs permeating the Soviet mindset. To maximize the level of mutual benefit, a company must connect the existing post-Soviet predisposition for the ‘betterment of the whole”, which stands at the core of the communist value system, with the strength of individual responsibility for achieving results, which drives the capitalist markets of the west. The companies that succeed at connecting “the best of the old” with “the best of the new” are rewarded via better employee engagement, increased loyalty, enhanced government relations, improved customer reliability, and increased investor interest; and

- **Harvesting Business Value from Information** - in a context of sudden information explosion that characterizes the transition from complete censorship of communist regime to open access of an emerging democracy, private sector is required to develop strategic and systematic approach to information sharing and management. Creating sustainable infrastructures for transparency, clear metrics, and open information flow allows for maximization of business benefits and social effect.
At the level of “how” of the mutual benefit approach, the findings in this study suggest that organizations seeking to achieve real mutual benefit between business and society must have:

- **Commitment of Executive Management** - top management of a company provides substantial support for implementation of the world benefit agenda. Such support manifests itself through deep understanding of the issues and tasks at stake, hands-on participation in decision-making and implementation, or proactive bridge-building between the world benefit efforts and the rest of business functions;

- **Boundary-Less Leadership** - leaders driving the innovation use their core expertise in service of world beyond the boundaries of their organizations or any other professional organizations. Therefore, creating world benefit stands among the core motivators for business activity;

- **Integration Into Core Business** – the world benefit agenda is integrated into core business priorities, decisions, and solutions, and receives attention of line managers and core functions, rather than corporate services, public relations, and alike. Employees, customers, investors, product development and business processes all serve as sources of sustainable value for business and society;

- **Comprehensive Strategy** - the implementation of the world benefit agenda starts with a comprehensive multi-faceted strategy tailored to specific contexts. Such strategy addresses a number of interrelated issues simultaneously, and offers systematic solutions that create synergy and deliberate long-term effect;
• **Deliberate Metrics, Monitoring, and Reporting** - Structured systemic methods of measuring and communicating impact are used during implementation of world benefit agenda. In addition to effective measurement of social impact, invention of effective metrics for measuring business impact is crucial for sustainable business commitment to world benefit agenda; and

• **Partnerships of Elevation** - Partners for implementation of world benefit agenda are chosen to assure elevation and acceleration of innovation and impact. Rather than partnering for re-distribution of responsibility, partnering for elevation expands the scope of responsibility, and allows connecting unique strengths and opportunities for increased impact.

The **mutual benefit model** proposed is a descriptive model, providing, as Stanford Encyclopedia of Philosophy (2007) suggests, a “stylized descriptions of the relevant target systems”, an “ideal type”, (Weber, Gerth & Mills, 1958) offering in a true Weberian spirit a summary, or an extraction of central, most prevalent elements comprising the phenomenon of mutual benefit. Due to historical nature of the data the model is built on, it does not suggest a linear sequential process, and does not track relationships between specific elements; future research may reveal such relationships and dynamics. For the remainder of the document I will refer to it as the Mutual Benefit Model, as offered in Exhibit 8. Now to the core of the matter – the substance of the proposed model.
The What: My Real Discoveries

It would be impossible to hide my personal bias towards what constitutes “the real” discovery of this inquiry. Indeed, I strongly believe that the foundational principles described in the first level of the mutual benefit model represent the most exciting, most generative, and most impact-full results of this project.

The Opportunity, the Imperative, and the Long Road In Between

For a number of decades, academia, government, civil society, and private sector have battled over the place of societal development in the overall business strategy and financial performance. From the first academic article by Bragdon and Marlin (1972) to the current practitioner report by Goldman Sachs (2007), numerous works have been investigating the potential for a positive link between social activities and the bottom line of a corporation, and did so with rather consistent success. The seminal Administrative Science Quarterly article by Margolis & Walsh (2003) made one of the strongest cases for positive relationships between a company’s social and financial performance by compiling the findings of 127 previously published studies – and the growing number of books, such as “The Sustainability Advantage” (Willard, 2002) and “Green to Gold” (Esty & Winston, 2006), has been echoing these findings ever since. Whether representing the voice of theory or practice, these and many other publications framed the issues of sustainability, corporate social responsibility, and alike as core business opportunity – a chance to seize unrealized advantage, to add to the existing strengths, to enhance the current position.
The data behind the *mutual benefit model* does not contradict this prevailing positioning of societal issues in business – indeed, all companies interviewed strongly confirmed the positive role of their social investments in the overall performance of their companies. They did, however, take it much further – suggesting that societal development is not just a mere *opportunity* for their company, but a core business *imperative*. As the first finding, *Reconstruction of Society as Business Imperative*, suggests, within the context of the former Soviet Union, societal revitalization is at the core of business success, and those who understand and act on it, are able to define and mold their environment for maximization of business benefit and restoration of the society at large.

Seeing reconstruction of society as a business *imperative*, rather than an *opportunity*, therefore, represents a kind of invisible strategy – generally unspoken, publicly unrecognized, tacit ingredient of the overall formula of exceptional business performance. And exceptional it is – all three companies-innovators in the study represent the very best of the post-USSR business: Kazkommertsbank is the largest bank in the Central Asia (Kazkommertsbank, 2006), SUAL Group has recently merged with RUSAL corporation to form the largest aluminum corporation in the world (UC Rusal, 2007), and Troika Dialog continues to attract 35 cents of each new dollar entering Russian investment market – a staggering market share for a crowded industry.

The movement from *opportunity* to *imperative* uncovered by this inquiry, is, of course, contextually driven – the very state of the post-USSR society, marked by poverty, corruption, conflict, and more, has much more influence on success or failure of any particular business. The contextual nature of this discovery, however, has implications beyond the boundaries of the former Soviet Union. For quite some time scholars from
Hawken (1994) to Laszlo (2008) have made the case for an essential, pressing need to recognize the imperative nature of sustainable practices in business. These sentiments, however, remain at the margins of academic and practitioner discourse; the sustainability nay-sayers aside, even the majority of the sweethearts of the business-in-society field still position social and environmental awareness as an optional add-on, a potential competitiveness booster, an opportunity, and not much more. The need for recognizing the imperative nature of societal development in the overall business success, however, remains, and it is my hope that the results of this inquiry add a little drop into the ocean of change to be conquered. After all, as Bertrand Colomb, former CEO of LaFarge puts it, “business cannot succeed in the world that fails” (Center for Business as an Agent of World Benefit, 2006) – and innovations for mutual benefit in the former USSR show that we can, indeed, succeed.

Change Management and Change Facilitation: The Role of Business

While the first finding of this inquiry deals with the general role of business in society, suggesting a role of a pro-active co-architect or co-builder – an equal co-owner - the second finding, Continuity of Human Values, addresses a particular aspect of such a role – change management and facilitation.

It is safe to say change is an omni-present aspect of modern life. In human sciences, change, whether organizational or societal, has been discussed and debated for decades (see, for example, compelling theories of change by Gersick, 1991, Greenwood & Hinings, 1996, Lichtenstein, 1995, or Weick & Quinn, 1999), yet, as Poonamallee (2006) so pointedly observes, “most change scholars study change at the expense of learning about continuity” (p.221). Fry & Srivastva (1992) made, perhaps, the most significant
contribution to the elevation of the concept of *continuity*, defining it, among other, as “experience of ongoingness that links the past to the present and the present to future hopes and ideals” (p.2). The *mutual benefit* model, and the data it is built on, suggests that in the context of massive societal change of the magnitude of the USSR collapse, business can provide facilitation and assurance for the *continuity*, the “ongoingness” for the shattered societal systems. Following the convictions of Bouwen & Overlat (2001: 34), who suggested that “there is no continuity without appreciation of the past. People will experience continuity when they can recognize the past in their present actions and intentions for the future,” the companies highlighted in this inquiry managed to appreciate certain values of the disintegrating system, and connect them to the values of the emerging one. Whether deliberately or accidentally, explicitly or tacitly, Kazkommertsbank, SUAl Group, and Troika Dialog performed a kind of appreciative inquiry (Cooperrider & Srivastva, 1987) into the paradigmatic, foundational beliefs of the former Soviet Union, and used the legacy of a predisposition towards “betterment of the whole”, which lies at the core of a communist philosophy, as a foundation for the emerging value of individual responsibility, which drives much of the market economy.

Why values? Why do values end up being the matter, the building block, the connecting thread between the past and the future of the former USSR? The data provides little answer to this question, but my own first-hand observations, along with the discoveries of published research, suggest possible answers.

The battle of two core human ideologies – communism and capitalism – is among the most important markers of the 20th century. “Ideology” is the core word here; indeed, both systems represent a set of beliefs, ideas, or values, driving and defining the lives of an entire society. For over 70 years, millions of USSR citizens has built their life around
ideas of community, social justice, and equality, which manifested themselves through communal, rather than private, property, communal, rather than private, gain, and centrally, communally administered, rather than market-driven, economy. In the years immediately following the collapse of the Soviet Union, the fundamental shift in ideology was as hard for the “Soviets” as the physical shift in systems, currencies, and infrastructure – hence the suicide spike of the 90s (Krastev, 2006). While many scholars observed the fluent, ever-changing nature of human values (among these scholars are Ball-Rokeach, Rokeach, & Grube (1984), Lewis, (2000), Tah, Harman & Simone (1966), Rogers (1964)), many of them underline the “inherent discrepancy” (Rogers, 1964) that exists when conceptions and ideals of others and one’s own collide. Palmer (2004) speaks volume to this potential war between the world and the self, when he says that “we end up living divide lives, so far removed from the truth we hold within that we cannot know the ‘integrity that comes from being what you are.’” What happens, then, to the entire 250 plus million ‘regular folk’, who fall asleep in a country of communist ideology, and wake up in 15 different countries of capitalist ideology? What is the mechanism for connecting the two seemingly opposite value systems, allowing wholeness and reconciliation of personal and societal values? After all, the values and the ideals were deeply personal – even while promoted by government propaganda – and played a key role in day-to-day functioning, decisions making, and human interaction (Harrison & Lewellyn, 2004). While the data in this study does not provide enough ground to answer these questions in full, it does strongly suggest that private sector can provide one of the mechanisms for connecting the past and the future – using values as a thread of continuity for the society in flux.

All in all, the second proposition of the *mutual benefit* model expands the current visions
for the role of business in society as an agent of poverty alleviation (Hart, 2005; Prahalad, 2005), ecological restoration (McDonough & Braungart, 2002; Hawken, 1994), peace-making and reconciliation (Nelson, 2000), or all of the above (Laszlo, 2008; Zhexembayeva, 2006), and suggest a new role of business as a facilitator of societal change – the role, I am sure, the many societies and communities in flux will find most welcoming.

*From Irrelevant to Indispensable: Harvesting Value from Information*

The third important discovery of this inquiry deals with the concept of information. The role of information in the modern society has been discussed through and through (it takes a minute to search up lists of books with the phrase “information age” in the title), and the increased public awareness of the power of information has been attributed to a number of scholars, most recognized among them are Peter Drucker and Alvin Toffler (Hope & Hope, 1997). Drucker most important contribution here was the introduction of the term “knowledge worker” in 1960 (Hope & Hope, 1997), which was then taken to the entirely new level by the Toffler’s 1960 bestseller on the birth of the “third wave” of economic development, the information wave, which have come as a successor to the agricultural and industrial waves (Toffler, 1960); many others followed the steps in most recent years, see for example, an immense work of Quinn (1992). As the importance of information in modern society and economy started to take root, the issue of the value of information was rarely addressed outside of the obvious value propositions of the service industry (e.g., the finance industry) and information technology industry. Few concepts have attempted to deal with the value of information on a broader scale, among these attempts is, most notably, the efforts in the field of social capital (Coleman, 1990) and intangible assets (Zadrozny, 2006). These findings, while immensely important for the
former USSR as much as for any other region, do no offer the level of breadth and depth of understanding around the value of information needed for specific context of the post-Soviet society. During the course of seventy plus years of communist regime, the level of government censorship of all information available in the public domain has varied, but remained high comparing to the freedom of speech standards of the western world. All professionally published information, including print, audio, television, feature films, theater plays, music, and such, went through thorough review, with significant portion of materials shelved and prohibited for release. Furthermore, it was an accepted practice to provide distorted statistics and untrue statements to the general media to boost the overall image of societal development and achievement of communist ideology. Naturally, in such conditions, information of any kind was perceived as having little-to-no value, and most often disregarded as irrelevant to the day-to-day life of the country. The collapse of the USSR turned much of the societal structures up side down, which, in combination with the emergence of the Internet, had created a sea of information where there was only a desert before. The three cases serving as a data grounding for the mutual benefit model suggest a number of ways to stay afloat in the sudden information sea; and the third element of the model itself extracts core learning form all the different approaches: in the context of the former USSR, private sector is required to develop strategic and systematic approach to information sharing and management. Creating sustainable infrastructures for transparency, clear metrics, and open information flow allows for maximization of business benefits and positive social impact. The present study, therefore, expands the current visions on extracting business value from information, highlighting the wide diversity of models for business value creation in this domain, and highlighting the importance of information management for the overall benefit of business and society.
The How: A Few Remarks

Most of what is to be said about the “how” elements of the mutual benefit model have been said in Chapter 6, where the findings were first presented. In large, the “how” aspects of successful integration of business and societal benefit in the former USSR reflect the common sense of effective organizing, and much substantive work has been done in the domain of organizational excellence and effective management to date. One finding, however, stands out of this bland crowd and deserves a few remarks, and that is concept of partnerships of elevation.

While the innovations uncovered by this inquiry differed significantly from one another in terms of social issues addressed, innovation mechanisms invented, business benefit received, industry involved, and such\textsuperscript{47}, what was universally common was the immense presence of partnership and collaboration in each case studied. Whether partnering with one organization (as in case of Troika Dialog, partnering with the World Economic Forum to launch the corporate governance investment risk rating), a small circle of organizations (as in a case of Kazkommertsbank, partnering with Eurasia Foundation of Central Asia, Zhalgas-Counterpart, and the United Nations Global Compact to create and advance the works of first corporate foundation of Kazakhstan, Kus Zholy), or a wide array of partners (as in a case of SUAL Group, which partnered with 10 plus organization for every element of its socio-economic development program), in each story business was able to elevate its efforts, visions, and impacts via the means of collaboration and co-creation. The concept of partnership of elevation, therefore, reflects the particular type of

\textsuperscript{47} See Chapter 6 for a snapshot of the innovations studied, their similarities and differences.
collaboration that, on one hand, brings organizational efforts to the entirely new level of scope, depth, or impact, and, on another hand, elevates the attention and intention of the effort beyond particular organizational boundaries into arena of action that is bigger than one self or one organization. As such, partnership of elevation fits perfectly into the existing vision of “transformative cooperation”, which Piderit, Fry, and Cooperrider (2007a) define as “the process that generates a new threshold of cooperative capability and takes people to a higher stage of moral development while serving to build a more sustainable world future.” As, perhaps, one of many mechanism of “transformative cooperation”, the particular type of partnership required for a successful mutual benefit creation is indeed a process – and ongoing interplay of actions and ideas, plans and adjustments, demolitions and co-creations of collaborative effort that delivers results that go beyond aspirations and impacts of any particular organization. The presence of the term “elevation” in the proposed label channels the transformative nature of such partnership, from one focused on private gain and “earthy” motives, to the one aspiring to world benefit and elevated intent. All partnering highlighted by this inquiry, thus, represented the new frontier of cooperation – namely, the horizon of “business and society cooperation… where organizations are viewed both as centers for the combination of human strengths as well as magnifiers outward” (Piderit, Fry, & Cooperrider, 2007b), the true landscape of mutual benefit.

**Limitations**

Important discoveries aside, the present study has a number of limitations that constrain its impacts and contributions to the theory and practice of healthy relationships between
business and the rest of society, and the social sciences at large. Among these limitations are:

- **Sample size**

  I have used three case studies featuring three central corporate players representing two industries (finance and mining & metals) and two countries (Russian Federation and Kazakhstan). Even though the cases offer in-depth data featuring a number of unique solutions for mutual benefit for business in society, the small number of cases limits generalizability of the propositions derived from the data. Additional cases would increase the ease of transferring lessons learned in this process into a different setting, and assure full extraction of all potential factors and forces of successful integration of business advantage and world benefit.

- **Contextual specifics**

  The cases studied in this research process are rooted in a very distinctive historical, economical, political, and social setting. While many organizations and societies go through significant changes, the ongoing transition of the countries of the former USSR is of a magnitude of historic proportion. Consequently, the propositions derived from the three case studies offer insights and lessons uniquely targeted for the context and the realities of the former Soviet Union. While some of the insights may offer meaningful suggestions for contexts outside of the former USSR, the contextual boundary represents significant limitation to the use of the data and the analysis of this study.
• **Limited attention to ecological issues**

While the original concept of mutual benefit for business and society is rooted in the definition that includes social and environmental benefits\(^{48}\), the case studies included in the project primarily focus on societal, rather than ecological benefit. Including cases with the primary focus on ecological restoration would enhance conceptual saturation, or, in other words, assure accounting of the full range of forces and factors of successful mutual benefit creation. The absence of significant ecological innovations in the data limits the transfer of insights of the study into the area of corporate environmental performance even within the same context.

To deepen the level of learning on the subject of business and society relationship, whether within the context of the former USSR or beyond, further inquiry must address these limitations.

**Conclusions**

Words create worlds, suggests common wisdom, summarizing eloquently in a short simple phrase the essential calling of our time. What words will we choose to define the trajectory of the human family in the 21st century? What world will we dare to create?

I want to believe that the two simple words comprising the concept of *mutual benefit* offer one possibility, one road map, one way to create the world that lives in mutual support, rather than mutual struggle. In essence, the *mutual benefit* model serves as an

---

\(^{48}\) See Chapter 1 for definitions used throughout the study.
early blueprint for a change framework for advancing world benefit agency of business as an institution of society – a blueprint, which, if further developed, could map out a journey to the place where societal benefit, integrated into business products and processes, represents a clear strategic advantage, rather than dreaded side-kick cost for a company, and the place where business is realized as a truly positive nurturing inspiring agent of society. At a more granular level, the model responds to the frustration of the Forum for the Future (2003) around limited knowledge of the “how” of sustainability, offering some possibilities around “what to do to make a difference on a Monday morning“ (Forum for the Future, 2003, p. 15). From the destination to the journey, the *mutual benefit* model offers some early directions for the search of the new world waiting to be created.

Words create worlds, suggests common wisdom, and many more words would be necessary to get to the place where *mutual benefit* for business and society is the norm, rather than exception. As I scan through the pages of this document, wonder sets in: what would those words, concepts, core ideas be? The many insights of this inquiry suggest that each company, each context would have to answer this wonder on its own, customizing its journey at each step, creating its own discoveries around:

- What does mutual benefit means for this organization? That is, what are the most potent opportunities to create harmony between business benefit and positive societal impact?
• Who are the most important players to be brought into the process of creation of the new elevated business strategy?

• What are the ways to engage the entire organization in the transformation process, igniting the spirit of innovation, drawing out tacit knowledge, and building on existing successes of strengthening the company’s business value by adding societal and ecological value?

• What are the most important structures, processes, and principles that would allow your company to stay with the process and see it through?

These, and many other questions, are to serves as catalysts for creation of many new words - concepts, ideas, approaches – that, I am sure, will lead many companies to the world of mutual benefit for business and the rest of society – the world that is prosperous, but also uplifting, effective, but also sustainable, productive, but also nourishing.

As for my own, personal conclusions, the essence of this journey is very simple: I have seen it with my own eyes. I have seen it – the glimpse, the truthfulness of what might be. I have seen it in the place many would deem as most unlikely – where corruption breeds, where destruction rules, where immediate material gain is the name of the game. I have seen it, touched it, sat amidst it – first hand, inside out, all access. And since I have seen it, I know what to look for now – in the existing reality of the world, and in the emerging reality of my own mind. The mutual benefit for business and society is possible, for the former Soviet Union and beyond, and I hope that, with the help of many other scholars
and practitioners, I will live to that magical moment when mutual benefit will be the only way.
Bibliography


http://www.iblf.org/docs/BusinessofPeace.pdf


insight/businesscase-article.asp?id=141


about/overview.asp


