"A Zero Sum Case?" Stakeholders, Privatisation and Corporate Greening in Russia.

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Introduction

During the Soviet era the absolute priority given to economic growth coupled with a Marxist ideology which placed no financial value on natural resources, had a truly devastating effect on the Russian environment. Supporters of the former regime claimed that environmental degradation would be eradicated as a result of public ownership and the absence of capitalist opportunism, whereas in reality only lip service was ever paid to environmental protection and the enforcement of environmental law. For example, it was quite common for a blind eye to be turned if a factory broke some environmental regulation in order to meet some production target, etc. Today there are many thousands of old Soviet factories attempting to survive in the new market economy which have outmoded methods of production, little or no pollution abatement equipment and a poor environmental record.

There is a desperate need for this poor environmental record to be addressed. However, the emergent ownership structure and, in particular, the new class of manager-owners appear to have little incentive to do so. In most of the newly privatized firms the manager-owners are engaged in the difficult tasks of restructuring their companies and managing to compete in very difficult and uncertain economic circumstances. For managers facing such problems environmental issues come a very long way down the list of priorities.

If there are very few pressures within firms to pursue environmental policies then there are very few outside pressures either. There is an almost complete lack of enforceable environmental regulations which have any real teeth. Thus, even where a fine is levied the size of the fine is usually so low that the firm is happy to pay it and then continue polluting. Similarly many of the traditional environmental pressure groups such as the non-governmental organisations (NGOs) have been weakened by the economic reforms and nowadays often lack the money, the organisation or the prestige to be able to influence events. One of the few effective environmental influences within Russian industry has come from foreign enterprises. However, the high levels of uncertainty which exist within the Russian economy has meant that relatively few foreign firms have invested in Russia up till now.

In this paper a stakeholder theory approach is used to analyse the differences in power and influence of the various stakeholder groups and the corporate greening process in Russia. It is argued that where the sum of all environmental stakeholders equals zero other factors which contribute to the corporate greening process become more prominent. In
particular it is argued that the context within which firms operate, especially the level of institutional thickness' and the vigilance and active involvement of the population in the local political process, are crucial features which must be incorporated into any explanation of corporate greening in Russia.

**The Greening of Business**

The past decade has seen a growing recognition of the critical relationships which exists between many forms of business activity and the natural environment. Three main factors have influenced this development. First, there has been a number of major environmental events' in recent years which have emphasized both the fragility of the natural environment and its susceptibility to change brought about by a wide range of human activities. The thinning of the ozone layer in the polar regions; the recent forest fires in the Amazon Basin and South-East Asia; the melting of the Larsen B ice-shelf and the threat of even larger areas of the Antarctic Ice Cap disappearing into the sea; the recent El Niño event and the subsequent impact on large areas of the world's climate and, perhaps above all, the apparent inexorable rise in global warming, have all provided sharp warnings of the urgent need for policies and practical measures to protect the environment.

A second factor has been the growing interest, particularly amongst consumer groups, non-governmental organisations (NGOs) and other bodies, in the ethical issues which underlie manufacturing and trading practices. Media reports and public protests over items such as the use of child labour in Third World countries; the Royal Dutch Shell company's plan for dumping the Brent Spar oil rig in the north Atlantic in 1995; the international boycott against Nestlé for selling powdered milk as a baby food to the developing world; have all indicated the growing importance of ethical issues for modern business enterprises.

The third factor has been the growing realisation of the need for global stewardship of the planet. It is increasingly accepted that global problems are going to require global solutions. Many world organisations have placed environmental issues very high on their agendas. For example, there has been the incorporation of environmental standards into world trade agreements, the so-called 'greening' of GATT (Esty, 1994); the creation in the 1990s of new bodies to deal with environmental issues and business enterprises such as the World Business Council for Sustainable Development (Ledgerwood, 1997) and, most importantly of all, the United Nations Earth Summit held in Rio de Janeiro in 1992 which attempted to gain world-wide agreement on policies for the protection of the global environment.

The net effect of these factors has been to begin the process of 'greening' business, particularly in the West. Few, if any western business organisations can conduct their activities today without having to give careful consideration to the impact these activities will have on the natural environment. However, the situation in the countries of the former Soviet bloc is markedly different. In Russia, as in so many other former communist countries, the huge scale of environmental degradation together with the almost complete lack of structures and procedures to deal with environmental problems has meant that very few enterprises have, as yet, been able to adopt green practices on a scale commensurate with those in the West.
The Russian Environment

One major legacy of the Soviet system has been a collection of some of the worst environmental conditions to be found anywhere in the world. According to Professor Boris Vinogradov (1991), some 16% of the total land area of the then Soviet Union should be regarded as an ecological disaster area. Other studies put the estimate much higher and state that practically the whole of national territory should be considered as being in a condition of ecological crisis (Altshuler, et al 1992). It is not just a case of a few well-publicised problems such as Chernobyl, the Aral Sea or Lake Baikal which are of concern but the fact that practically every river in the former Soviet Union suffers from major pollution problems, that vast tracts of land have been affected by windborne ash and residues containing heavy metals, that most cities suffer from levels of air pollution sufficiently high to seriously affect the health of their inhabitants, and so on. For more than seventy years Soviet industrial enterprises and military-industrial complexes have polluted the surrounding countryside, often on a vast scale.

The state of the Russian environment has been the subject of a number of major studies by western scholars, notably Goldman (1972); Pryde (1972, 1991); Ziegler (1987); Micklin (1989) and Massey-Stewart (1992). In recent years a number of Soviet scientists have also managed to publish on this issue, often in great detail and in very trenchant terms. Notable amongst these latter are Komarov (the pseudonym of Zeev Wolfson - 1978), Altshuler (1992) and Mnatsakanyan (1994). From these various studies it has become apparent that environmental degradation in the former Soviet Union occurred not merely because of neglect or through errors in planning, although such factors did make a significant contribution to the problem. The fundamental cause of environmental degradation was the Soviet system itself in which economic expansion, together with national defence, was given absolute priority in the strategic development of the nation. Under the command system of management the national economy was to be forcibly developed and this to be achieved without regard for the impact that this might have on the environment. Industrial enterprises were expected to meet their planning norms with little or no consideration being given to the means by which this was to be achieved. It was an imperative of the system that production levels should be attained. Consideration of environmental issues was to play a very subordinate role in the Soviet system.

To the question of priorities in the Soviet system should be added Marx’s Labour Theory of Value. The theory stated that an object can only have monetary value if it has been created by human labour. According to Marx any natural resource, if it has not undergone human intervention, cannot be evaluated in monetary terms. As a result little attempt was made in the former Soviet Union to conserve natural resources. If a resource is considered to have no value then to conserve it is to make no contribution at all to the national economy. Similarly, any pollution or other despoilation of resources would not enter into any economic calculations. If a natural resource in its original state has zero monetary value then the pollution of that resource makes no difference to its value. Apart from these theoretical considerations natural resources in the former Soviet Union such as energy supplies, mineral resources, etc all seemed to be in super-abundant supply and so there has been little or no practical incentive to adopt expensive conservation measures in practice.
In recent years the situation has been further complicated by the collapse of the Soviet system and the transformation of the centrally planned system to a market economy through the privatization of state assets. Whereas formerly the industrial sector was almost entirely state owned, the majority of firms nowadays are private enterprises (see below). However, despite this change in ownership many of the basic problems of Russian industry remain, including low productivity levels, lack of finance for capital investment, lack of working capital, etc. and very little has been done so far to introduce clean methods of production. Russia's industries still retain a very high capacity for polluting the environment.

The Russian Privatization Programme

In 1992 the Russian government decided to privatize state assets by giving away shares in the former state-owned enterprises to the people of Russia. The privatization programme was organised by a team headed by Anatoliy Chubais whose main goal was to privatize a large number of enterprises as rapidly as possible. The principal mechanism chosen to achieve this was through a voucher scheme. All Russian citizens born before September 1992 were entitled to a voucher which could be exchanged for shares in most medium or large-sized enterprise which were about to be privatized.

There were, in fact, a number of different methods for transferring ownership to the private sector. Smaller enterprises, defined as those with fewer than 200 employees and/or with assets whose book value was less than 10 million rubles on 1st January, 1992 were sold off through a series of auctions and tenders, with management and employees having the right to bid for these enterprises. Medium-sized enterprises, with between 200 and 1,000 employees and/or assets of between 10 and 50 million rubles on 1st January, 1992 could either be sold off in the same way as the smaller enterprises, by auction or tender, or by one of the variants used for the privatization of large enterprises (below). Larger enterprises, with more than 1,000 employees or having more than 50 million rubles of capital at the beginning of 1992, had to be privatized through transfer of the business to a joint-stock company and then sale of the shares to management, employees and the general public through a voucher auction. Under this buy-out scheme management and employees of large companies could select out of one of three variants for privatization:

Variant 1: Employees could obtain 25% of the shares free of charge and the next 10% with a 30% discount to be paid for over a three year period. Managers could obtain 5% at their face value.

Variant 2: Employees and managers could buy out 51% of the shares at their face value.

Variant 3: If a group of employees take responsibility for carrying out the privatization and maintaining output levels then they could buy 20% of the shares at face value. All employees, including this group, could buy another 20% with a 30% discount to be paid for over a three year period.

Evidence from the first stages of privatization indicate that approximately 70% of all voucher buy-outs used Variant 2, 21% used Variant 1 and only used 9% Variant 3. A number of sectors were excluded from the voucher auction and remain in state hands; these include armaments, nuclear engineering, tele-communications, and power generation equipment. In a further group of enterprises the state retained a 'golden share' after
privatization giving the state power to veto certain strategic decisions such as take-overs, liquidation, etc but without involving the state in the day-to-day running of the enterprise. More details of the privatization programme are contained in Wright et al., (1993), Frydman et al., (1993) Estrin (1994) and Filatotchev & Bradshaw (1995).

Impact of the Privatization Programme

Overall the privatization programme certainly achieved Chubais' aim of rapidly privatizing a large number of Russian enterprises. Between January 1993 and April 1995 a total of 116,000 enterprises were privatized, representing some 85% of all non-agricultural employment. Studies of privatized companies by Boycko et al. (1993) and Filatotchev et al. (1996) indicate that in the period following privatization employees and non-senior management on average owned between 45% and 50% of the equity, senior management about 20%, outsiders about 15% and the rest (between 10% and 20%) was owned by the state property fund. The general trend post-privatization has been for the proportion of shares owned by the state and employees to fall whilst the proportion owned by senior management has risen. This finding is re-inforced by a study by Gurkov & Asselbergs (1995) which indicates that the role of employees in the decision-making procedures of firms has been reduced whilst that of the senior management has increased. There is also some evidence to suggest that those firms which are employee owned are less likely to restructure and introduce reforms whilst management and outsider owned firms are more likely to reorganise and invest in new production procedures (Wright et al., 1997).

The Corporate Governance Question

Understanding the relationships which can exist between a business enterprise and the natural environment requires that consideration be given to the question of how that enterprise is governed. The manner in which an enterprise reacts to green issues will depend on the structure of that firm, its objectives and decision-making processes, in other words its corporate governance.

Consideration of the governance of an enterprise is a long-established topic within economics, stretching back as at least as far as Adam Smith (1776) and including the notable contribution of Berle and Means (1932), but is only since the beginnings of the 1990s that the topic has become the subject of intense scrutiny. Indeed, the term ‘corporate governance’ was rarely mentioned before 1990 whereas now it is thought to be quite fundamental to our understanding of corporate behaviour (Keasy et al., 1997).

In its original form the question of corporate governance revolved around the relationships which exist between the shareholders, who are the owners of the firm and the senior managers, who control the firm and make all the day-to-day decisions about the running of the firm. According to this concept the enterprise owners are normally considered to be interested solely in obtaining shareholder value, ie profit-maximization, whereas managers are assumed to be more interested in maximizing personal income and/or minimizing personal inconvenience. Thus, this early concept of corporate governance focussed entirely upon the formal system of accountability of the senior managers to shareholders.
More recently the question of corporate governance has been widened considerably to include all those bodies which have some influence upon the successful operation of the enterprise and which may include other employees, regulators, consumer groups, financial institutions, outside pressure groups, etc. This more recent concept places considerable emphasis on the increased complexity of the modern enterprise, but it also makes it much more difficult to provide a clear definition of what should be included within the concept of corporate governance. Following Keasey & Wright (1993) we will accept the definition of corporate governance as including ‘the structures, process, cultures and systems that engender the successful operation of the organisation’.

The situation is further complicated by the fact that there are at least four competing models of corporate governance, see Blair (1993) and Keasey et al (1997). These include: (i) the principal-agent model in which the corporate governance structure of an enterprise is the result of a bargaining process between the owners (principals) and the managers (agents) over the particular monitoring and accountability procedures which are to be adopted in the enterprise. According to this model, which has been dominant within the USA and the UK, the optimum condition (social welfare maximisation) occurs when the original bargaining process over monitoring procedures such as independent accounts, a board of directors accountable to shareholders, etc, takes place under pure market conditions free from any restrictions or impediments.

The second model, (ii) the myopic market model, states that the market system undervalues long-term factors particularly expenditure on research, development and investment generally. Under this model the task is to identify imperfections in the market system and advocate reforms that increase shareholder power. The third model, (iii) the abuse of executive power model, argues that currently senior management has excessive power which some abuse to further their own self-interest through very high executive remuneration schemes, etc. The idea of this model is to identify reforms that weaken the entrenched power of senior management. The fourth model, (iv) the stakeholder model, provides the biggest challenge to the principal-agent approach. Whereas the principal-agent model concentrates entirely on the relationship between the owners and managers in the stakeholder approach it is recognised that there are many other bodies such as employees, customers, suppliers, etc which also have an important role or ‘stake’ in the long-term success of the firm. Of these four models the one which can most readily accomodate environmental issues is the stakeholder approach (Fineman & Clarke, 1996).

**Stakeholder Theory**

Stakeholder theory has its roots within corporate social performance literature defined by Wood, (1991) as a process of corporate social responsiveness, which facilitates the defining of corporate social responsibility principles, and directs the outcomes of socially responsible corporate behaviour. Environmental impact is just one area that falls within the remit of ‘socially responsible behaviour’.

Stakeholder theory deals with the impact of different interest groups on the firm and owes much to the work by Freeman (1984) on strategic management. There exist considerable areas of debate over specific areas of stakeholder theory and particularly concerning the definition of stakeholders, the power of relative stakeholders groups and how they exert
that power, the dual role of stakeholders, and the theoretical underpinning or justification for stakeholder theory. Space does not permit a detailed analysis of these argument here, rather it is the intention to state the position that will be taken on these debates within this paper in order that the following analysis of Russian environmental stakeholders can be placed in context.

**Defining Stakeholders**

In this instance, stakeholders will be divided into primary and secondary. Primary are defined as those stakeholders without whose continuing participation the corporation could not survive, and secondary as those who influence or affect, or are influenced or affected by, the corporation but who are not essential for its survival (Clarkson, 1995; Fill, 1995; Frederick et al., 1988).

**Stakeholder Power**

Different stakeholders have different levels of power and that power (Frederick et al., 1988; Carroll, 1993) is often determined by: (i) the potency of the stakeholders' voice (Hill & Jones, 1992); (ii) their ability to 'exit' from the corporation (Hill & Jones, 1992); (iii) their perceived legitimacy (Carroll, 1993; Fineman & Clark, 1996); and (iv) their effective communication (Fill, 1995).

Managers are considered to be important mediators in stakeholder influence. How managers perceive and react to stakeholder groups will have an important affect on industry's subsequent response. "Management's challenge ... is to identify the nature/legitimacy of a group's stake(s) and the power that the group's possesses to affect that organisation" (Carroll, 1993). Wood (1991), states that managerial action is, in part, a function of managerial discretion. Thus 'perceived legitimacy', (Carroll, 1993), as opposed to legitimacy per se, relates the managerial perception of different stakeholders and how they accord credibility to them. Greenley & Foxhall, (1997) talk of the impact of "managers' personal beliefs and values", in combination with corporate culture - which will in part be defined by top managers' ideals and credence (Jones, 1995) - as determining the way that managers formulate plans regarding stakeholders. Fineman & Clarke (1996), Fineman (1996) and Fineman (1997), show, that managerial perception of environmental stakeholders is heavily influenced by the personal values and beliefs of the individual. Thus, if a stakeholder group is not held in high esteem by an organisation, it may not, in an extreme case, be recognised as a stakeholder.

One way that that power can be exercised is through 'exit', (Hill & Jones, 1992). A comprehensive withdrawal of capital or labour can significantly impair an organisation's ability to function. For example, an organised workforce has considerable power as a stakeholder group to influence the organisation to embrace its demands. The power of 'exit' is diminished, however, when groups lack cohesion. Thus, if individual consumers decide to withdraw their purchasing power from an organisation they will have limited affect whereas if the consumers act as a group they will benefit from strength in numbers. Individual stakeholders must have a coincidence of demands, however, to be interested in cohesion, and even then they may lack the will or resources to collude. In this instance, interest alignment
mechanisms (Hill & Jones, 1992), such as pressure and consumer groups, can come into play to coordinate the efforts of multiple individuals towards a common goal.

For some stakeholders, for example individual shareholders, their ‘voice’ (Hill & Jones, 1992) is a more powerful tool than their right of exit. If an individual shareholder or even a small group of shareholders decides that they are unhappy with the operations of a company they may consider selling their shares, but this is likely to have very little impact on the management of the firm. However, these same people as shareholders have the right to attend the annual general meeting of the company where they are intitled to question the board. In other words they still have a powerful ‘voice’. Conversely, other stakeholders may have a relatively weak voice compared with their power of exit, for example employees or suppliers.

In general, when diffuse consumers collude to form part of a co-ordinated group they can act at less cost and more effectively, through ‘strength in numbers’, to reduce utility loss. Collective ‘voice’ and ‘exit’ is stronger than the individual’s ‘exit’ and ‘voice’.

‘Exit’ and ‘voice’ mechanisms are not without their constraints. To engage in an organised withdrawal of labour can be very expensive. Often a stakeholder’s voice will not be heard by the management of the firm if that voice is not perceived by management to be legitimate (Hill & Jones, 1992; Fineman & Clarke, 1996). Also, management may still hold the balance of power. The organisation may well be in a position to limit the instances where labour withdrawal is viable, e.g. through union bargaining, or may chose not to listen to the voice of other stakeholders. In some instances, despite the initiation of interest alignment mechanisms, management may still be more powerful than the combined force of individuals within the stakeholder group.

Communication channels can also play a part in determining power. Strong or close ties with the management of an organisation will obviously place a stakeholder in a stronger position to communicate their demands and interests. Other stakeholder groups, particularly consumers or pressure groups, may use the media as a means of communicating their opinion to management. In theory some stakeholders may have a voice, but whether they are heard depends on the legitimacy afforded to them by management, and their ability to make that voice heard.

Thus stakeholder power can be represented by the following equation:

\[ (\text{Voice + Exit}) \times (\text{Perceived Legitimacy}) + \text{Access to Effective Communication Channels} \]

The power of Russian environmental stakeholders will be assessed on this basis.

**Dual Roles**

It is also important to acknowledge the existence of collusion (Frederick et al., 1988; Fill, 1995; Johnson & Scholes, 1993) and dual roles (Fill, 1995; Johnson & Scholes, 1993). It is the case that ‘most individual stakeholders will belong to more than one stakeholder group’ (Johnson & Scholes, 1993). For example, employees can be members of pressure groups such as trade unions. Where this is manifest, those with differing...
stakeholder roles may prioritise one role over another, but not all individuals will assume the same priority order. These dual roles and priorities can also be constantly changing. In this environment the organisation has to 'cut through' the confusion in order establish the priorities and demands of stakeholders and how this impacts on the firm's activities.

Collusion of different stakeholder groups can be undertaken in order to boost the power of the individual stakeholder groups. Frederick et al., (1988) enter into a short discourse asserting the need to map these écoalitions' so that "managers can appreciate how much concern exists (for a particular stakeholder issue), and which actors need to be considered as actions are taken". They do not attempt to physically draw a stakeholder map that represents écoalitions', neither do they enter into a discussion of how the power of a stakeholder écoalition' maybe greater than the sum of its constituent parts. However, they do acknowledge that coalitions can and do shift over time. While two or more shareholder groups may be willing to bury their differences in order to achieve a common goal in one instance, they may not be amenable in another. Thus the shareholder map is ultimately a dynamic one.

The Theoretical Underpinnings of Stakeholder Theory.

Donaldson & Preston (1995) offer three theoretical justifications for stakeholder theory:

- Descriptive justifications attempt to show that the concepts embedded in the theory correspond to observed reality.
- Instrumental justifications attempt to show evidence for stakeholder management and corporate performance.
- Normative justifications appeal to underlying concepts such as individual group rights, social contracts or utilitarianism.

Donaldson & Preston (1995) set out to demonstrate that due to the weakness of descriptive and instrumental justification, the normative element rests at the centre of the model. In so doing they advocate that, a) stakeholders are groups with legitimate claims and interests in the corporate activity of a firm, they are defined by their interest in the firm regardless of whether the firm has an interest in them; and b) stakeholders should be considered for their own sake, their intrinsic value, and not in terms of how they may effect other stakeholder groups.

Hill & Jones (1992) take the view that all stakeholders have a utility function and each stakeholder group attempts to maximise their utility function. The firm, in attempting to placate employees claims for higher wages, or customer demands for lower prices, will divert wealth away from the stockholder. If, for instance, stockholder wealth is not maximised as a result of following such a course, then this will result in utility loss for the stockholder. The same will be true if the firm pursues stockholder wealth at the expense of the employee wages, or environmental degradation. In order to minimise this utility loss, interest alignment mechanisms are employed. For instance, firms may be persuaded to take on pollution abatement techniques if the government offers them a tax incentive to do so.

For the purposes of this paper, a strict normative view of stakeholder theory will not be adhered to. Rather the theory will be underpinned in
terms of description, defining and identifying those stakeholders who interact with the privatised Russian firm. An instrumental underpinning will also be adhered to (Freeman & Evan, 1990; Hill & Jones, 1992; Jones, 1995; Greenley & Foxhall, 1997). The purpose of this paper is to investigate the relative ability of Russian environmental stakeholders to influence the environmental strategy of privatised Russian firms. This relationship is to be examined with respect to the relative power of each stakeholder group, and their ability to collude, within the confines of managerial perceptions of legitimacy.

**Environmental Stakeholders**

Fineman & Clarke (1995) in their study of managerial attitudes towards green stakeholders' identified the following stakeholder groups.

Missionaries; bodies whose mission is to protect the environment. This includes local and national pressure groups such as Friends of the Earth, etc. These groups employ a wide range of methods, from conservative persuasion, i.e. exhorting the virtues of environmental protection and explaining how it benefits business, moral exhortation, or direct confrontation/sabotage.

Regulators; bodies who formulate and enforce environmental law to protect society from environmental harm. They work within the parameters set by local and national government.

Indirect Interest Groups; those with an indirect interest in the industry's environmental performance; financiers with concerns for environmental liability; shareholders, some who may be green and others who may be interested in not having their dividend eroded by the cost of environmental clean up; speculators, interested either in ethical investments or in firms that have a good environmental record and hence one's that will not entail excessive fines or other costly measures; green consumers, etc. This group may also include suppliers interested in greening their supply chain.

Internal; this includes those who have the environment as part of their job description such as the chief executive with responsibility for such matters, or those in Public Relations with responsibility for projecting a green company image; marketing, legal, and other personnel who have an environmental persuasion and who wish to influence company policy.

These groupings can be split into primary and secondary stakeholders (Clarkson, 1995; Fill, 1995; Frederick et al., 1988). Essentially the Indirect Interest and Internal stakeholders are primary, and the Missionaries and Regulators are secondary, according to the Clarkson, (1995); Fill, (1995); and Frederick et al., (1988) definitions. As an investigative framework for analysing Russian environmental stakeholders some adjustments to these categories need to be made. Thus the dual role of employees and managers as owners needs to be recognised, as they could be described as both shareholders' and internal stakeholders. Secondly, in a transitional economy with a weak institutional structure ethical investors, green consumers, etc. are extremely rare. Similarly, sophisticated and well organised legal and marketing departments such as those described in the Fineman & Clarke (1996) interviews are also very rare. Extremely few Russian firms have a public relations department in place to dodge bad environmental publicity, or to lobby regulators. Thus the map used by Fineman & Clarke (1996) needs to be simplified, modifying...
many of the more ‘western’ elements and giving more emphasis to the characteristics associated with transition economies such as foreign investors and foreign joint venture partners, and their influence vis-à-vis greening. Thus the revised map would look something like this:

Missionaries: Environmental Non-Governmental Organisations (NGOs) both local, national and international.

Regulatory: Russian environmental legislators.

Indirect Interest Groups: Outside-shareholder, employee-owners, manager-owners, foreign investors, suppliers, financiers, consumers, general public.

Internal: Employees, managers, trade unions.

In so doing, the distinction between primary and secondary groups is retained, but the model is now more appropriate for the environment to which it is to be applied. Each major group will now be dealt with in turn.

NGOs

Western evidence shows that despite managers’ reluctance to admit to the ‘force’ of such groups, NGOs and pressure groups are a source of strong influence and have brought about pro-environmental change in organisations, all be it of a defensive nature (Fineman & Clarke, 1996, Fineman, 1996, 1997). It is generally accepted, however, that in Russia missionaries such as NGOs have not fared well in the transition environment.

Various environmental NGOs exist in Russia, for instance The Socio-Ecological Union, The Moscow Ecological Federation, and Greenpeace Russia. Pickvance (1996) discovered that rather than growing stronger as a consequence of economic transition and a ‘freer’ post-Soviet society, their power and influence had been undermined. The need for economic survival and the maintenance of living standards, had successfully sidelined the case for the environment. These environmental groups face increasing hostility from both the media and the public, and lacked financial backing:

“Most Russian movements (environmental NGOs) are hardly funded at all, and are very badly equipped. Their intellectual capacity does not compensate for the lack of material resources...The lack of resources contributes to their lack of success...in association with the political context which is the key feature most responsible for the outcome of Russian environmental movements’ low success rate.” (Pickvance, 1996).

The Russian public seem aware of the environmental problems that exist in Russia but unwilling to do anything about it. For example, in interviews with families in Sortavala, a small town on Lake Ladoga, concern was expressed with respect to pollution and the fact that they had to boil all their drinking water, but the concept of ‘protesting’ seemed alien to them.

“We have not taken to the streets to protest about not having been paid for three months, so why would we do so to protest about the state of Lake Ladoga?” (Crotty, 1997)

In Russia the environmental movement lacks cohesion and has suffered from
reduced legitimacy since democratisation. During the Communist era, environmental protest was seen as an apolitical means of protest and was popular with the intelligentsia, particularly during the 1980s. However since 1991, interest has turned to asserting economic factors rather than the environment, (Lawton Smith, 1995).

The Altai Socio-Ecological Union and their associates the Pacific Environment and Resources Centre (PERC), a US environmental NGO assisting Russian NGOs in the Far East, are two exceptions to the above. Tracy (1997), an executive of PERC, indicates that Russian NGOs may have advantages that most western NGOs do not. For example, Greenpeace Russia has free advertising space on Russian television. Secondly, in Russia the protection of the environment is not a political issue and NGOs have been quiet successful in developing pro-environmental attitudes against mineral extraction etc. in local areas. Thirdly, Russian NGOs are more focused on economic alternatives. Thus NGOs in Siberia spend a considerable amount of time focusing on how to maintain local economies through tourism etc and without having to extract these mineral resources, etc. Nevertheless, Tracy (1997) does comment both on the lack of funds available to environmental NGOs, particularly from the West. Thus Tracy (1997) calls for western donors to give directly to specific NGOs rather than to an agency in Moscow, but does offer a different perspective on the relative strengths of NGOs, a perspective which is under-lined by Shishin (1997).

As director of the Altai Socio-Ecological Union Shishin (1997) decided to set up his own television company as a means of access to the media in Russia. In the Altai region there are specific problems with pollution from rocket fuel and space junk littering an industrial-free landscape. Shishin (1997) made a film about this problem called “The Trip” which has been shown on Russian television and has succeeded in focusing government attention on the problem. In spite of a lack of finance Shishin still managed to have a ‘voice’ (Hill and Jones, 1992) by being creative.

The situation concerning environmental NGOs in Russia is therefore blurred, but it can be assumed, for the purposes of this research, that environmental NGOs are relatively weak stakeholders.

The Regulators

As stated in the section on the Russian environment, environmental legislation was not usually enforced during the Soviet era. For the most part this has continued during the transition era.

Although Russian environmental laws are comprehensive by Western standards, the associated environmental standards are largely unachievable and the penalties so lenient that payment of fines remains economically more favourable than compliance and the introduction of new cleaner technologies. (Hutchinson et al., 1996).

In their study of experiences in attempting to export western style training to managers in the Ural region, Hutchinson et al. (1996) cite the Sinarsky Pipe Plant, which continued to dump waste on a specified site after it had been closed down by the local authority, with the management just paying the recurring fine. Management acknowledged that although environmental protection procedures were in place implementation was poorly enforced.
Recently, Russian environmental policy has been downgraded with respect to its position in the hierarchy of government, (Zakharov, 1997). At present there is no minister for the environment and Russian environmental policy is now formulated at the centre for Russian Environmental Policy, which advises the Duma directly.

The EU

In some of the central European transition economies, the pull of European Union membership has had a positive effect with regard to legislation and the general orientation of environmental policy. Reeves (1995) describes the EU PHARE (Pologne-Hongrie Actions pour la Reconversion Economique) financing of the clean up of Lake Ferto through the improvement of water treatment facilities. Fagin (1994) catalogues the improvements made to Czech environmental law since the Velvet Revolution in 1989 emanating from the prospect of EU membership. However, Russia is not in this ‘first wave’ of post-Soviet countries that have been invited to make applications to the EU. Thus, it is unlikely that EU regulations or a long term need to comply with them in order to be considered for membership, will be a strong influence on Russian environmental legislation or enterprise behaviour. Thus the EU is a weak, if non-existent stakeholder.

Foreign Investors

Foreign investors appear to be one of the more likely group of stakeholders to have a positive influence on the firm. Kogut (1996) has, in fact, advocated foreign joint ventures as one of the potentially more successful routes for those Russian privatised firms keen to ensure longevity. The potential environmental benefits are obvious. Western firms with the intention of trading on world markets will want to ensure that those products produced in Russia conform to international standards, particularly since the emergence of the international environmental standard ISO 14001.

Sabel & Prokop (1996) cite the Katerina Pipe Factory, in the Sverdlovsk region as an example. Although this company was well placed to take advantage of the pending improvements to the Russian infrastructure, it became obvious that the company would need to obtain an ISO 9000 accreditation to be considered for the international consortium that would carry out the work. As foreign companies were to be included, Katerina had to accept that they would rely on ISO 9000 as a matter of course and probably the ISO 14001 standards as well.

ISO 14001 is a relatively new initiative, hence it is unlikely in the short term that western firms will have embraced such a standard sufficiently that they feel it necessary to impose it on their eastern counterparts. There is evidence to suggest that managers in the West currently regard ISO 14001 with a degree of suspicion, not holding it in high regard, (see Fineman & Clarke, 1996).

This study indicates that environmental tools may be only part of the answer, and these may be dependent on the intervention of western firms.

Foreign investment is dependent on willing investors, to which there are several barriers. In October 1996, "The Financial Times" published The Merchant International Group (UK) statistics, classifying the risks inherent in new markets. This was done by surveying 2,500 British and
American companies who had invested in these markets. At that time Russia was revealed as a world leader in terms of political risk for investors, and came fourth behind Pakistan, China and Indonesia with respect to corruption. In part this was explained by Yeltsin's current bout of illness. Also in 1996, Ernst and Young ranked the post Communist countries regarding economic attractiveness and investment potential. Russia was ranked 11th out of 24. This rating reflects Western acknowledgement of Russia's vast natural resource base, and concurrently, the persistent high levels of political and social instability, (Nikolayeva, 1996).

Hence, to put faith in the influence of foreign direct investment as the catalyst for greater environmental awareness throughout Russian enterprise, is to be extremely optimistic. Both of the above surveys point to political and social instability as the key factors in holding up the flow of foreign capital. At the current time, this seems unlikely to change.

Structural barriers to foreign investment also exists, such as bureaucracy, insufficient legal protection for the foreigner, inadequate access to capital, and the lack of adequate living space, office space and communication networks for foreigners.

Cross-cultural aspects also come into play in questions of foreign investment. "To learn form other countries seems safer, but it can also be dangerous," Frydman & Rapaczynski, (1994). The simple transfer of knowledge from one cultural setting to another does not guarantee results. It is impossible to tell how the receiving culture will embrace that knowledge or how it will have to be adapted to become workable. Kogut (1996), describes organisational knowledge as being embedded in social relationships, hence, in attempting to observe western practices, or to replicate western methods, Russian managers will have to take such social relationships into account. Similarly Russian organisational knowledge is embedded in Russian social relationships, which again will effect the way that any transferred knowledge is adopted.

Also, it should be borne in mind that the West may not be the panacea that it promises. "The new multinational foot slips easily into the boot of the old socialist empire," Stark (1996). Stark also calls for guarding against Russia relying heavily on foreign cash and management in order to see its way through this period of instability. Once reliant on western aid it will be difficult to break away. This call is echoed by Ellman (1994).

Thus again, it would seem that foreign investors appear to be a weak stakeholder when it comes to influencing Russian enterprise owner-managers vis-‡-vis, corporate greening.

Suppliers

There is a body of western literature, of which Wychereley (1997) provides an adequate summary, that asserts that environmental improvement can be realised when corporations attempt to égreen' their supply chain. This is the process by which firms are encouraged to improve their égreen' credentials or be removed from the list of suppliers used by the company in question. In research carried out on suppliers to The Body Shop, Wychereley (1997) indicated a number of problems with this theory, the most significant of which being that not even The Body Shop could guarantee sufficient orders to warrant the costs involved in greening processes. He does suggest that in small and medium sized companies this process is more likely to be possible, citing some positive evidence by Bell (1997).
However, this process is only possible where firms operate in an open market system, where firms are not vertically integrated. If a firm controls the supply chain, then in effect it does not have an external supply chain, and therefore lacks external influence.

Economic transition has led many Russian firms to adopt survival strategies, one of which has been a strategy of self-selling (Krueger, 1995), the strategy of selling output through the firm's own distribution channels. This has the effect of guaranteeing at least some cash flow. Krueger (1995) offers some examples of such, including the Tver Bread Factory No.1. In 1995, the factory sold 50% of its output to its own shops. Krueger (1995) also notes machinery and metal working factories doing the same in Tver.

While this policy helps to ensure that these firms survive the transition period, they also have the effect of distorting or protecting the supply chain from outside influence. Where protected, the potential for corporate greening through the supply chain is weakened, or eradicated. It weakens the role of buyers and suppliers as potential environmental stakeholders.

Insiders

The relative strengths and weaknesses of managers and employees have already been explored in some detail above. Suffice to say, managers, by their owner-manager status have often manoeuvred themselves into a position of almost absolute power in many of the medium-sized, Variant 2 privatised enterprises. Conversely, employees have been weakened, despite their share-owner status, by the reforms. Traditionally employees in the West have redressed the balance of power within the corporation by the use of interest alignment mechanisms (Hill & Jones, 1992), i.e. trade unions. The Fineman & Clarke (1996) study of green stakeholders and their relative influence on UK managers demonstrates that in the 1990s, managers perceive trade unions as more concerned with jobs rather than the environment. However, trade unions traditionally have also been concerned with the health and safety of the employees, which in the incidence of exposure to noxious fumes or other forms of pollution, can have a significant impact on the running of the enterprise.

The Romanov (1995) case study of the Prokat Aluminium Smelter offers some insight into the position of trade unions in the post-Soviet enterprise. Management initially stifled the emergence of trade unions and employee representation at management level was non-existent, particularly through the earlier stages of transition when large amounts of surplus labour were shed. Romanov (1995) comments that this is not a particularly significant change from Soviet times when employees were not represented at management level. However, this is an interesting comment when placed against the actions of management at Plastmass (Varshavskaya & Donova, 1996), where managers justified a widening of the disparity between managers' salaries and employee wages on the grounds that it was 'standard western practice'. It would seem, therefore, that this 'standard western practice' argument is only used when it is to the advantage of management, and dispensed with at other times. Employee representation obviously does not benefit the owner-manager in the privatised Russian firm. There is a qualification to be made at this point as there is now some evidence to suggest some embryonic development of the trade union movement in post privatisation firms, (Linz & Krueger, 1996). Nevertheless, the evidence presented indicates that trade unions are unlikely to be a dominant stakeholder with regard to influencing the privatised Russian firm on environmental issues.
for some considerable time into the future.

Conclusions

One of the chief legacies of the Soviet era is a vast industrial sector with many thousands of firms using outdated methods of production and with little or no pollution abatement equipment. Soviet ideology had no way of internalising questions concerning the environment which, as a result, tended to be added-on afterwards as a reaction to particular events or as a result of world standards or agreements. However, such ‘add-on’ rules or legislation did not form a central part of Soviet policy. Environmental legislation remained inactive or frequently was just simply ignored. It is against this background that the Russian privatization programme has been carried out, creating western-style joint stock companies with new forms of corporate governance. These new enterprises are now having to operate within the context of the environmental problems which remain from the Soviet era.

The nature of the Russian privatization programme, with its heavy reliance on a ‘give away’ voucher system to create share ownership, has placed a very large amount of control into the hands of the manager-owners. This is in contrast to the West, particularly in the anglo-saxon countries, where there is normally a clear separation of power and function between the owners and the managers of a firm. In certain respects Russian enterprises are far less open than their western counterparts and therefore potentially have far fewer avenues by which leverage can be exerted over environmental issues. Added to this in the transition environment many of the traditional environmental stakeholders, such as NGOs, have been weakened by the reform programme and the parlous state of the economy. Environmental organisations, consumer groups, etc in Russia currently lack the finance and organisational ability to form a powerful lobby for green issues. When the power of the owner-managers is compared to that of environmental stakeholders there is little cause or motive for the former to be open to the influence of the latter. In the current situation there is a considerable danger that, for the majority of Russian firms, there being a zero sum case of stakeholder influence over green issues.

The results of this paper support Fineman & Clarke's (1996) contention that stakeholder theory provides an appropriate framework within which to study the relationship between corporate governance and environmental issues. However, there are a number of limitations to the stakeholder approach, as delimited at present, and a need for certain modifications and extensions to make the theory applicable to Russian conditions.

In the original (Freeman) formulation stakeholder theory provides a series of mappings of stakeholders within the corporation. However, this needs to be extended to include ‘process’ elements to indicate what drives the system on. What power does each stakeholder group have to influence decision-making? From where do they obtain this power? How are these powers used and in what circumstances? How are power conflicts resolved? etc. Stakeholder theory also needs to be sensitive to dynamic changes within the system as a whole. A country such as Russia is currently going through a period of transition and rapid transformation. Stakeholder theory needs to be sufficiently adaptable to be able to address new conditions as they arise.

Perhaps the greatest need in Russia today is for there to be a greater level of institutional “thickness” - a greater number of organisations,
regulatory bodies, pressure groups, and so on - to ensure that firms conform to "the rules of the game" and do not indulge in rogue behaviour to gain competitive advantage. In part this can be achieved through increasing "embeddedness", the close relationship between local stakeholder groups such as the town council, local chambers of commerce, housing associations, etc and an industrial enterprise. However, there is also a more general need at present for a greater number and wider variety of green stakeholder groups within Russia. This implies a further democratization of society with local individuals and groups increasingly fulfilling the role of monitoring and, where appropriate, pressurising industrial enterprises to conform to environmental norms.

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