

## Anti-Corruption Strategies for Businesses Operating in Russia

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### Abstract

In spite of the fact that many companies operating in Russia actively undertake specific actions to prevent corrupt acts, most of them do not have a comprehensive anti-corruption strategy. Their definitions of corruption are vague, their actions target marginal corrupt practices, but miss important threats, and their communications are ambiguous. In our research, however, we came across a number of organizations, both local and foreign, who have not only made corruption mitigation their strategic priority, but who have created efficient and effective anti-corruption governance systems. In combination with existing theory, these systems could serve as potent blueprints for leaders who want to take control of corruption at their firms.

### Introduction

In 2010–13, we conducted a number of workshops for executives from local and international companies operating in Russia. Although the names and formats of these workshops varied, the underling goal was the same—to help the executives mitigate corruption. The corporate leaders who briefed us before the events were consistent in their message: they navigate in a highly corrupt environment, facing pressures from governmental officials on an almost daily basis, and need help in developing effective and efficient ways to protect their businesses. It is easy to understand them. The Russian economy is considered by many metrics to be one of the most corrupt in the world, and despite recent strong anti-corruption rhetoric from the Kremlin, it remains at the bottom of the global corruption pyramid. Even the media coverage of the 2014 Winter Olympic Games in many countries has focused at times more on the corruption surrounding the Games and its unprecedented scale than on the athletes and their achievements.

Yet, as we have learned from frank conversations with the workshop participants, many of them do not feel the same way about corruption as observers outside Russia. Surprisingly, many managers do not see any need to do anything about business corruption within their own firms. Justifications in support of this position consistently emerged in our discussions, with claims ranging from corruption as endemic in society, to corruption only in specific businesses, to corruption in other companies but not one's own. In light of these arguments, many executives considered the anti-corruption programs launched by their companies to be public relations or industrial relations campaigns rather than essential business activities. We believe that this widespread attitude is a failure of corporate leadership, which can and should be corrected at the organizational level.

### Corporate Anti-Corruption Strategies

In spite of the special attention being given to the theme of business corruption over the last two decades and the

considerable anti-corruption efforts undertaken by governments, regulators, NGOs and business associations, systemic corruption appears to be a common reality of organizational life, especially in developing economies. Russia is not an exception. The Russian government has launched campaigns to clean up the image of the state agencies most affected by corruption. Even though Russia's civil society is still under development, several anti-corruption movements have emerged. In the business sector, this includes the All-Russia Non-Governmental Organization of Small and Medium Business (OPORA Russia), which represents the interests of small and medium-sized enterprises. The German-Russian Chamber of Commerce has initiated an alliance of foreign companies operating in Russia that criticize corruption and do not participate in it. Moreover, the Russian government has introduced a number of anti-corruption measures, including recommendations for state officials on dealing with bribery. These recommendations range from a broader definition of bribery to bribery allusions. As a result, for example, state officials should now be more careful when using some expressions and conversation topics that might be considered allusions to bribes, such as referencing their low income or a desire to purchase particular goods or receive a special service. In addition, some suggestions made by state officials, such as voluntary donations to a charity or sponsorship of a sports club, might also be considered allusions to bribes. The document explicitly states that *regular* accepted gifts with a value of more than 3,000 Rubles (~ 85 USD)<sup>1</sup> might be also considered a bribe. Nevertheless, as numerous academic and other publications have demonstrated, business corruption remains one of the major risks for companies operating in the country.

There are only a few studies analyzing anti-corruption actions that have been developed and implemented

<sup>1</sup> According to Russian law, a gift to a decision maker with a value of more than 3,000 RUB constitutes a bribe.

by companies. To fill in the information gap about this phenomenon in Russia, we decided to collect empirical data directly from business leaders. We received data from 112 participants. In addition to the original 19 strategies presented in the questionnaire, the respondents identified a number of informal practices applied by companies, which they consider effective anti-corruption strategies. (Table 1 presents the original 19 strategies. Table 2 presents the additional informal practices).

We have ranked the strategies according to their frequency of use as reported by the participants using the following scale: 0 points for “never,” 2 points for “sometimes” and 5 points for “systematically.” For each strategy, we identified a target category, e.g. one of seven specific groups of company stakeholders (shareholders, executives, employees, government officials, suppliers, customers, competitors) whose behavior the strategy intends to alter. For example, “Proactive proposals to regional authorities and regulatory agencies on cooperation programs and methods” targets government officials for “Training of managers and regional staff in the internal rules of interaction with their counterparts”—executives and employees. We also differentiate strategies between their administrative and social transmission channels and their prevention and control mechanisms, because this distinction allows us to examine some assumptions that organizational leaders make about effective ways to mitigate corruption.

### **The Mismatch Between Corrupt Practices and Anti-Corruption Strategies**

The first part of the survey demonstrated that companies operating in Russia suffer mostly from the corrupt actions of corporate executives, yet none of the reported strategies targets corporate executives exclusively, even though five of the six most frequently used strategies concerns this category of stakeholders.

Judging by the frequency of use, government officials are the main target of corruption mitigation, with 2,068 points for the use of strategies targeting this group versus 1,745 for employees and executives. We need to acknowledge that from the 19 anti-corruption strategies selected for the questionnaire, 11 practices target government officials, thus providing a larger range of choices for respondents than practices targeting employees and executives (5 in total). Therefore, the results may be somewhat skewed towards the strategies targeting officials. At the same time, the initial list of strategies was created on the basis of interviews with the CEOs of companies operating in Russia and a content analysis of publications on this subject; therefore, the predominance of strategies mitigating corruption risks associated with government officials indirectly reflects the mental-

ities of executives who themselves perceive government officials to be a more important threat than their fellow executives or employees. Table 2 confirms this hypothesis, since among the strategies that survey participants added at their own discretion, we find more practices targeting officials than those aimed at executives.

### **Strategies to Mitigate the Corrupt Behavior of Executives and Employees**

The strategies applied by the businesses operating in Russia to mitigate corruption on the part of executives and employees have a number of common characteristics. These strategies are frequently used by all types of companies, whether they are foreign or Russian, large or small, public or private. The majority of them rely on administrative channels of transmission, leaving social/cultural or informal channels unexploited. This is surprising taking into account the importance of informal governance for Russian companies and the widespread use of informal practices to mitigate other types of risks.

All strategies are low-cost undertakings, which do not require either financial investments or administrative efforts, but could be implemented within existing budgets and organizational routines. They all could be described as “generic” or “universal,” since they do not reflect organizational, industrial or national specifics and could be found throughout the world. In essence, they are “by the book” strategies, recommended by global institutions engaged in anti-corruption efforts such as World Bank, Transparency International, and others. Most of the strategies are preventive, e.g. they try to avert the corrupt behaviors of executives and employees by communicating the rules, setting examples, developing diagnostic skills, and articulating negative and positive consequences of employee actions and non-actions.

### **Strategies to Mitigate the Corrupt Behavior of Government Officials**

Strategies aiming at preventing the corruption of government officials are more elaborate. Some of them are preventive, while others intend to minimize the negative consequences of corrupt acts. To mitigate government corruption, businesses actively use formal and informal instruments. One of the strategies is a very peculiar combination of formal and informal, or even of corrupt and anti-corrupt actions—using “telephone law” to ensure the application of existing laws. This and other examples demonstrate that the boundaries between what is legal and illegal are blurred; many companies use what they find practical in their specific contexts and adopt practices that are considered pre-modern or even corrupt by theorists. Such practices include, for example, “gaining a seat in the local legislature to exert influence over

corrupt members of executive branch,” which, according to Transparency International, is one form of corruption: revolving doors.

Context plays an important role in the choice of anti-corruption strategies in Russia. At the same time, the survey demonstrated that such “modern” anti-corruption strategies as the use of courts or the proactive communication to government officials of corporate rules and norms are being used frequently by both foreign and Russian companies.

Contrary to some theoretical models, horizontal cooperation does not play an important role in anti-corruption. Most of the companies in the survey do not systematically exchange information and they are even more reluctant to build alliances with others. We believe that this reflects the lack of a tradition of collective action in Russia as well as the predominantly vertical mental models of power of the Russian executives.

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#### *Further Reading:*

- Ledeneva, A. (2013). *Can Russia Modernise? Sistema, Power Networks and Informal Governance*. Cambridge: Cambridge University Press.
- Shekshnia S., Ledeneva, A., and Denisova-Schmidt, E. (2014). “How to Mitigate Corruption in Emerging Markets: The Case of Russia,” Edmond J. Safra Working Papers, No. 36, February 6, 2014. <<http://ssrn.com/abstract=2391950>>

**Table 1: Importance of Anti-Corruption Strategies**

Strategy	Frequency	Target category	Prevention/Control	Transmission channels
Creation and dissemination of internal policies and procedures setting out detailed rules for working with contractors, such as holding tenders among suppliers and contractors	323	Executives, employees	Prevention	Admin
Use of high-profile campaigns, events and sponsorship to promote the company's interests and image	311	All	Prevention	Social
Use of the security department to detect and stop internal abuses and theft	303	Executives, employees, contractors	Prevention/Control	Admin
Training of managers and regional staff in the internal rules of interaction with their counterparts	295	Executives, employees	Prevention	Admin
Creation and dissemination of Codes of Corporate Conduct	264	Executives, employees	Prevention	Admin
Use of internal audit service to identify internal abuses and violations	249	Executives, employees, contractors	Control	admin
Pro-active communication of company's rules and standards on working with contractors, government and regulatory agencies and mass media to partners	206	Officials, contractors	Prevention	Admin
Proactive proposals to regional authorities and regulatory agencies on cooperation programs and methods	181	Officials	Prevention	Admin