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Some Anti-Corruption Strategies in Doing Business in Russia

105 - Risks in International Business. Considering the market while not neglecting the political dimension

Abstract

The modern paradigm of corruption research – that corruption should be defined, measured, and converted into anti-corruption measures – is currently undergoing substantial revision (cf. Ledeneva 2009, 2013, Barsukova / Ledeneva 2014). One of the arguments is that certain phenomena that are defined as corruption in the West, might be a social norm or a tradition in other cultures.
How does this affect the business activities of foreign companies in Russia? How should foreign companies deal with these problems while striking a balance between Western standards and the rules of the game on the Russian market? If companies violate the Western rules of conduct, it can have an impact on their other markets as well as their relations with international organizations and on exchanges. If they reject the Russian norms, however, they can lose their local market opportunities as well as the benefits of market expansion in the country (Shekshnia et al. 2014, Denisova-Schmidt et al. 2014, Denisova-Schmidt / Kryzhko 2015).
Drawing from our empirical studies, this paper presents and discusses several recent examples, including such concepts as "gifts", "nepotism", "accepting benefits" and "informal networks".

Keywords:

Business, Russia, Corruption, Culture

Corruption is usually defined as 'the abuse of entrusted power for private gain'[2]. It may take various forms, ranging from bribery and fraud, to gifts, nepotism and favouritism. Based on our previous empirical research (Denisova-Schmidt 2010, Denisova-Schmidt 2011, Denisova-Schmidt et al. 2014, Denisova-Schmidt / Huber 2014, Denisova-Schmidt / Kryzhko 2015, Denisova-Schmidt et al. 2016, Kryzhko 2015, Shekshnia et al. 2013, 2014) and literature review (cf. Transparency International 2013 and Fey / Shekshnia 2011), we have developed some anti-corruption strategies that foreign companies might use while working in Russia.

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[1] The views expressed in this article are Dr. Kryzhko's own and do not represent those of her employer.
[2] http://www.transparency.org/what-is-corruption/

1. Bribery and facilitation payments

1.1 Examples

- Customs officers asking for facilitation payments to speed up the passing of goods through the border, even though all necessary documentation is available and correct;
- Officials asking a large foreign company to make a 'present' in the form of medical equipment to a local hospital in return for promising to award a tender in a local infrastructure project;
- Local authorities asking for assistance in obtaining a visa and organizing holidays in Western Europe in order to facilitate advances in a project conducted by a foreign company.

1.2 Counteraction strategies

- Take into account the longer time needed to pass through customs control (if goods are not critical) or import goods in advance and keep them available in stock;
- Outsource[3] to local partners and suppliers activities that require dealing with local authorities and customs officers;
- Schedule more time for project implementation and refer to internal rules and Western European regulations.

2. Tax evasion and tax avoidance

2.1 Examples

- Payment of grey salaries, whereby part of the salary is paid officially with all required taxes while another part is paid off the books. This practice enables companies to offer better salaries to their employees, with the quip 'we must pay our employees first and the state second';
- Creation of several 'fake' companies in order to have the value-added tax of 18% reimbursed by the state several times, because each company shows the same goods in stock each time.[4]

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[3] International companies should be careful when using this strategy, however. According to their own national regulations, they might be responsible for any proven corrupt activities on the part of their agents.

[4] In Russia, importers must transfer a value-added tax (VAT) of 18 percent on certain kinds of goods. This amount of money is subsequently included in the price of the goods on the Russian market. However, if the goods are not sold during a three-month period, the importers may ask the state to refund the VAT.

2.1 Counteraction strategies

- Regular control and auditing of internal processes[5];
- Benefits packing including health insurance, cars and other benefits as part of a remuneration package.

3. Gifts and hospitality
3.1 Examples

- Organizing corporate events for employees and their families as well as for suppliers and other business partners that are celebrated rather extensively, e.g. with dinner at a luxury restaurant and a show program, or an all-inclusive, all-day or weekend event;
- Expensive gifts to business partners, for example, for New Year[6].

3.2 Counteraction strategies

- Introduce limits for gifts and invitations;
- Adopt regulations regarding the timing of gifts and invitations, for example, a ban on gifts or invitations during ongoing tenders.

4. Fraud
4.1 Examples

- Submitting false documents and certificates for a job application;
- Taxi drivers offering their passengers blank invoices (sometimes several blank invoices, in case a mistake is made while filling them in);
- Dinner in the hotel restaurant is included on the room bill (the price for the dinner is not separately shown on the bill)[7].

4.2 Counteraction strategies

- Verification of skills stated in certificates during the interview;

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[5] These kinds of informal practices and corruption are typically observed in local companies. Large international companies are often able to eliminate such practices through strict internal compliance rules, regular internal audits and their respective corporate culture.

[6] New Year has great significance for Russians. Gifts are usually given for New Year (and Christmas, celebrated on 7th of January).

[7] This practice is more common among small hotels in small cities.

- Establishment of a corporate culture that prohibits participation in such practices;
- Administrative punishment for participation in such practices when they are detected.

5. Conflict of interest
5.1 Examples

– Preference of working with proven suppliers and business partners or even friends in order to avoid potential risks.

5.2 Counteraction strategies

- Introduce internal tendering rules;
- Regular internal audits.

6. Cronyism or nepotism
6.1 Examples

- A Russian manager employing family members, relatives or good friends on his / her team;
- The head of a Russian-German joint venture awarding contracts to local companies owned by his family members or best friends[8].

6.2 Counteraction strategies

- Open application process where friends and relatives compete with other applicants;
- Introduction of internal rules that regulate the tendering procedure;
- Delegation of experts from headquarters into the local management team.

7. Lobbying and abuse of authority
7.1 Examples

Many (former) deputies and their family members in Russia also run private companies, leveraging their political networks for their private companies

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[8] Since it is difficult for university graduates to find their first job in Russia, parents or other family members and close friends of the family often try to assist them in finding their first position. Additionally, there are a lot of mono-towns, i.e. a town with just one large enterprise, in Russia and in other post-Soviet countries. Most of the employees in such an enterprise went to the same school or university, or might also be relatives.

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7.2 Counteraction strategies

Hire former state officials, for example, a former ambassador in a Western European country, to be responsible for governmental relations.

8. Conclusions

Our research shows that many foreign companies often rely on two kinds of strategies to counteract corruption:

- Preventive strategies that encompass internal rules and regulations, the establishment of a strong corporate culture, and the outsourcing of selected activities to local partners; and
- Strategies of control, i.e. regular internal audits, the verification of documents and certificates, and the delegation of headquarters employees.

Moreover, our study revealed the importance of considering the cultural context when doing business in Russia. Some forms of 'corruption', in Western understanding, might be a tradition and/or a way of getting things done through ineffective working institutions. Effective leadership can also be crucial: a non-corrupt charismatic leader may become a role model for the employees. These findings are in agreement with the GLOBE study (House et al. 2004), which showed that Russian employees favour a charismatic leader with strong values and a team-oriented leadership style. Such a role model is an effective measure for preventing corruption in an informal way, supplementing the strategies described here.

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