

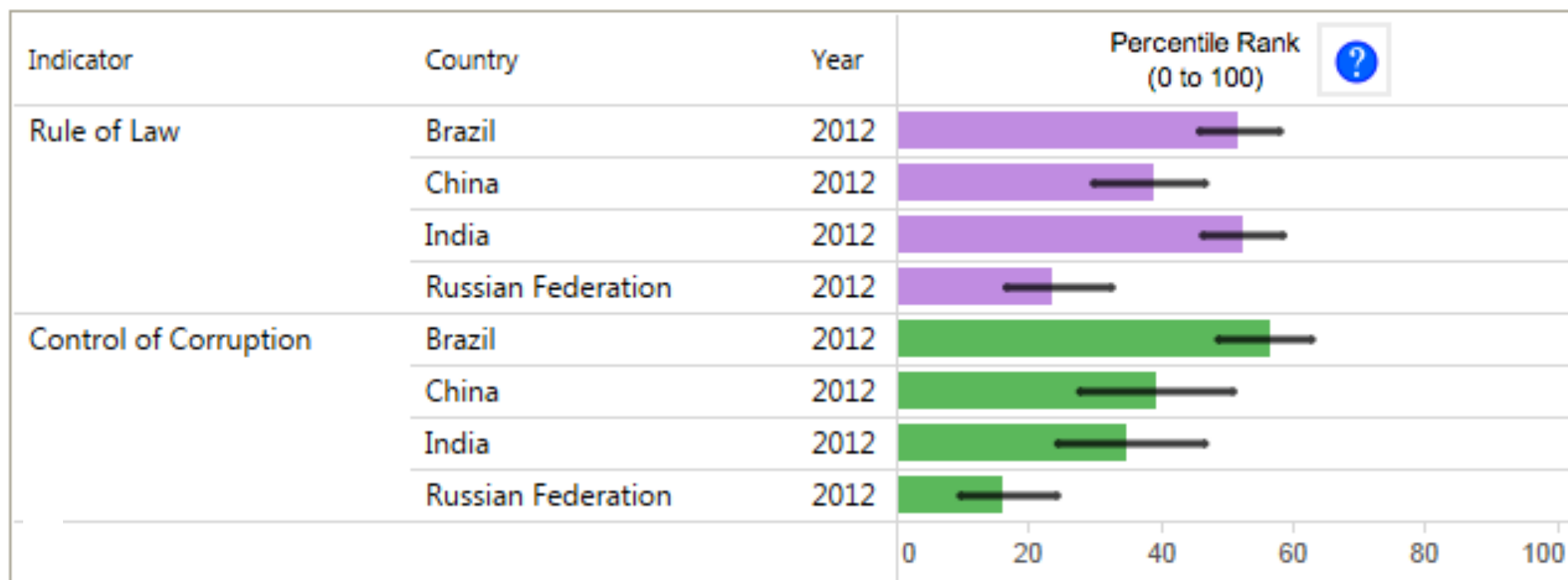
# Corruption's Role in Russian Business Conflicts

Jordan Gans-Morse  
Department of Political Science  
Northwestern University

Corruption in Russia: National Problem, Regional Solutions  
CIPE-Kennan Institute, February 24, 2014

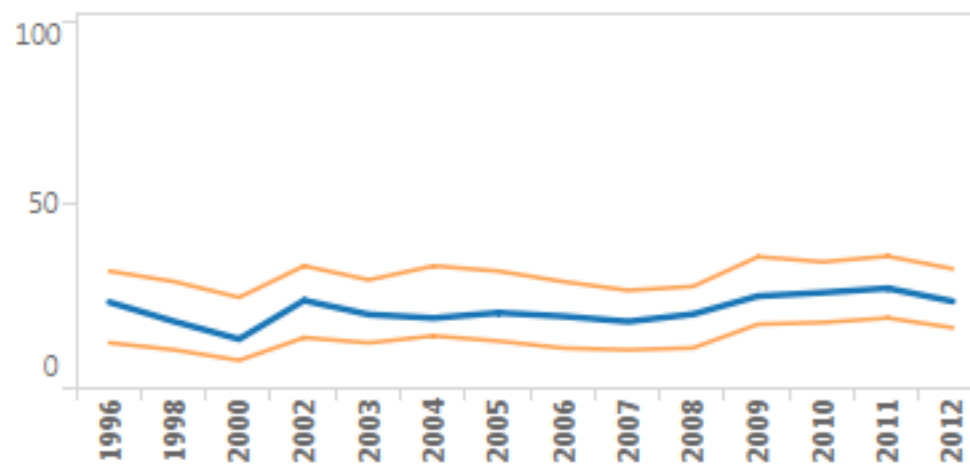
# Russia in Comparative Perspective (macro view)

## World Bank Governance Indicators

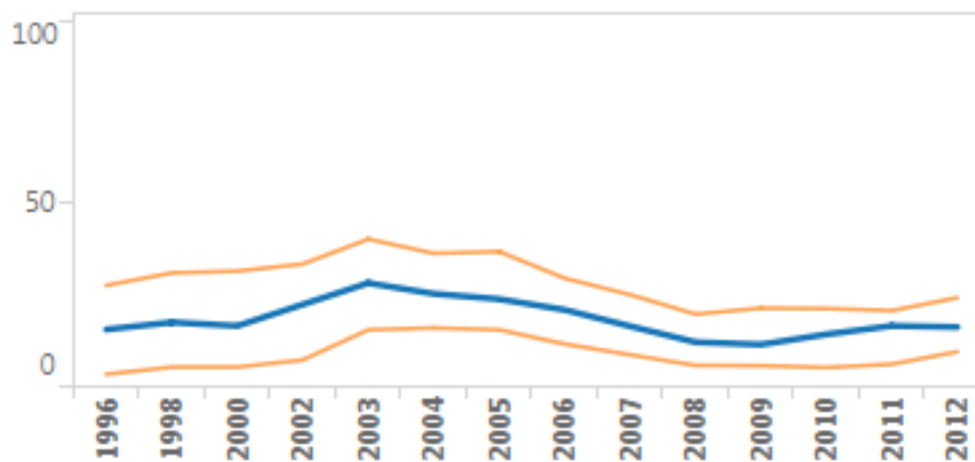


# Russia over Time (according to World Bank)

## Rule of Law

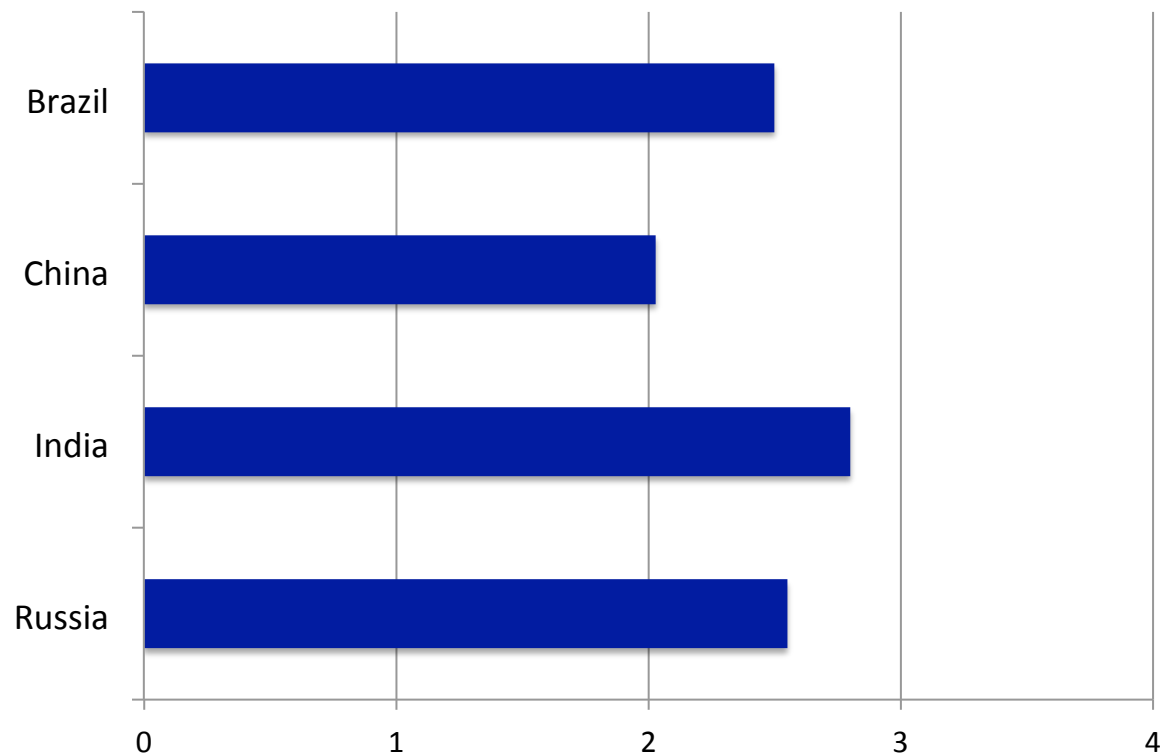


## Control of Corruption



# Russia in Comparative Perspective (micro view)

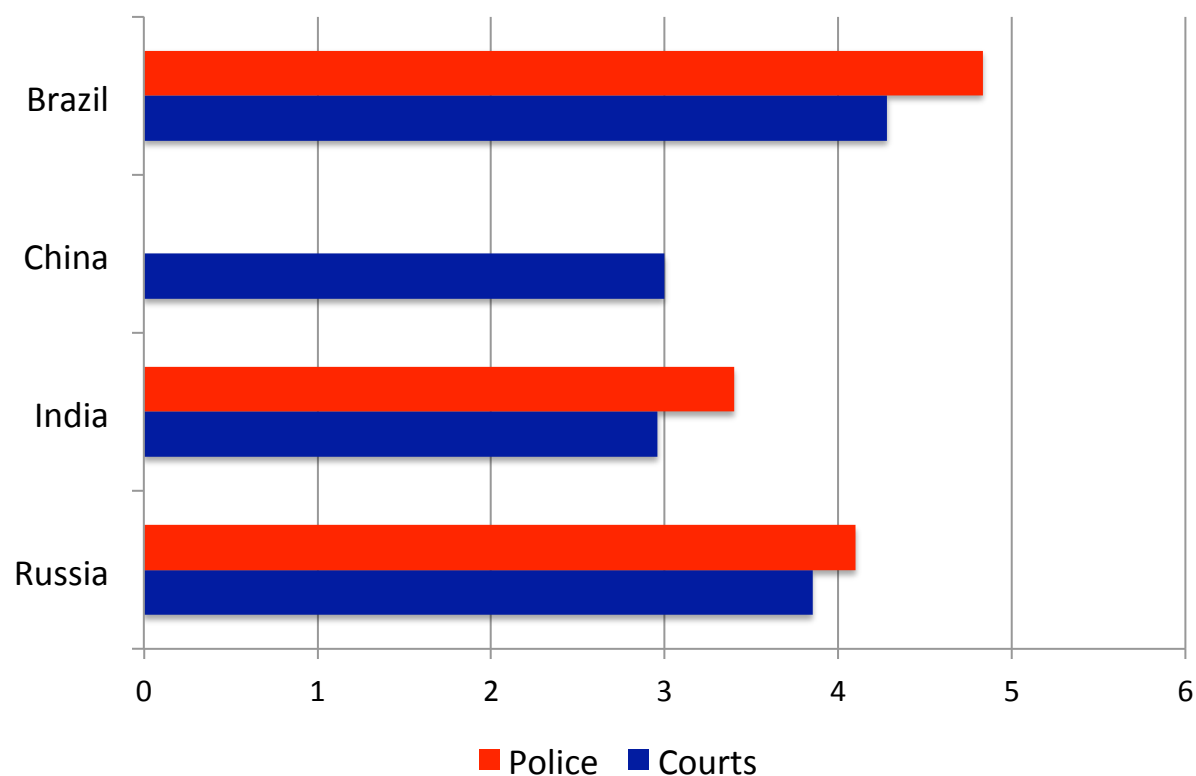
Corruption as Obstacle to Doing Business  
(1= no obstacle, 4 = major obstacle)



Source: World Bank Business Environment Surveys

# Russia in Comparative Perspective (micro view)

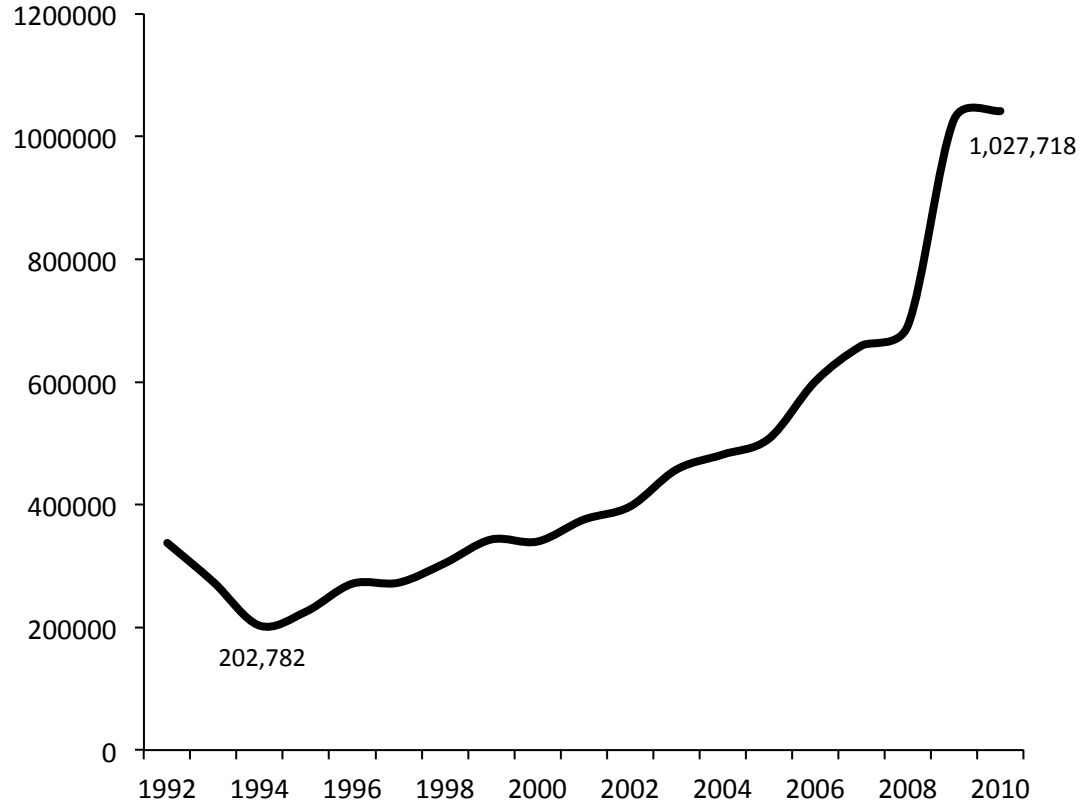
Quality of Courts and Police  
(1= very good, 6 = very bad)



Source: World Bank Business Environment Surveys

# Russia over Time: Increased Law

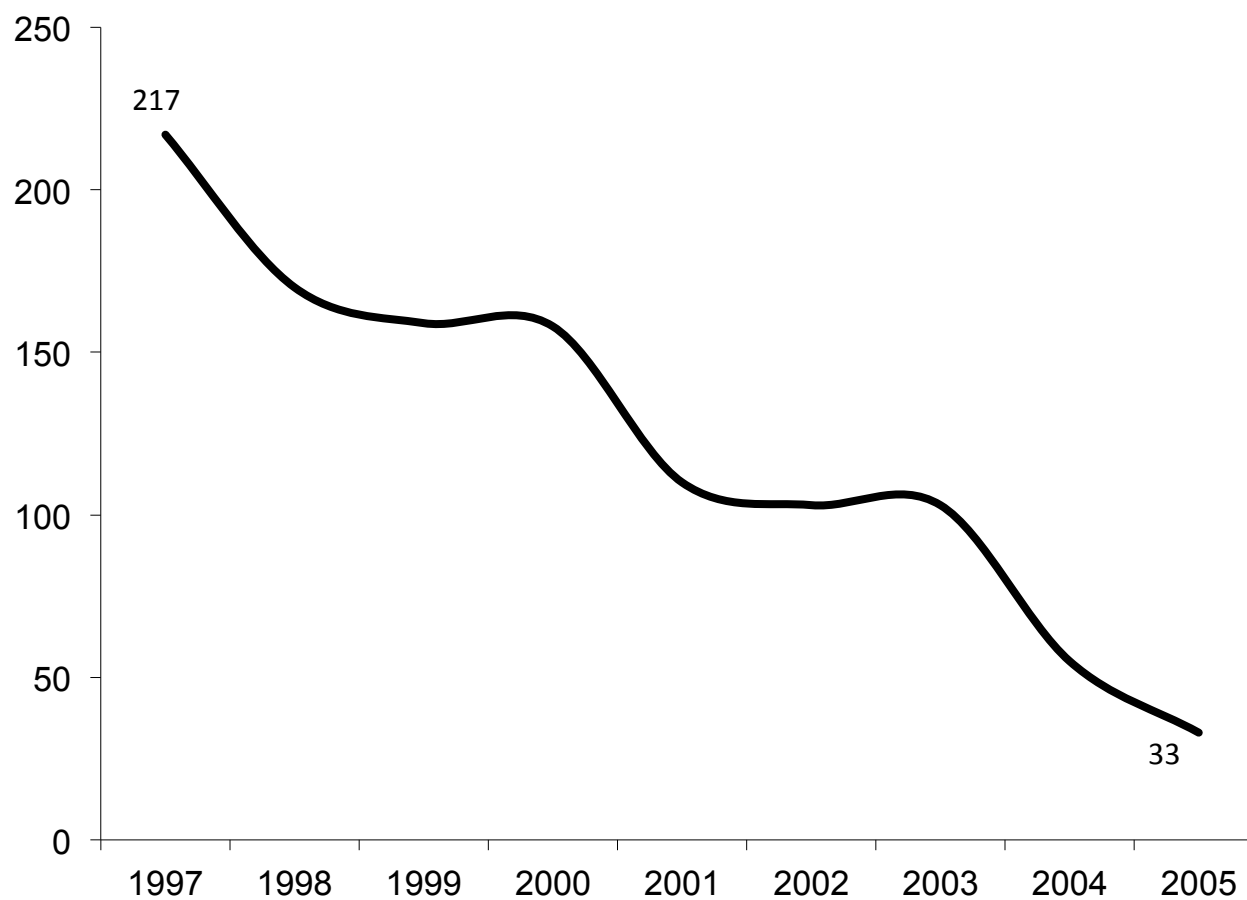
**Annual Number of Cases Initiated by Firms  
in Russian Commercial Courts**



Source: Supreme Commercial Court of RF

# Russia over Time: Decreased Violence

**Annual Murders of Businesspeople  
Central Russia, 1997-2005**



# Overview

## **A Puzzle**

- Russia widely considered corrupt and lacking in rule of law
- BUT violence and corruption in Russian business conflicts decreasing
- AND use of law in Russian business conflicts increasing
- How is this possible?

## **The Answer**

- Change in norms or legal reforms? No
- Changes in Russian economy and within Russian firms? Yes

## **Evolution of Russian Business Conflicts**

- State threats to property replacing private threats
- Current situation unstable



# Data

## 90 interviews:

- 56 businesspeople, 22 lawyers, and 12 private security agencies
- Throughout 2009
- Moscow and Siberia

## Survey:

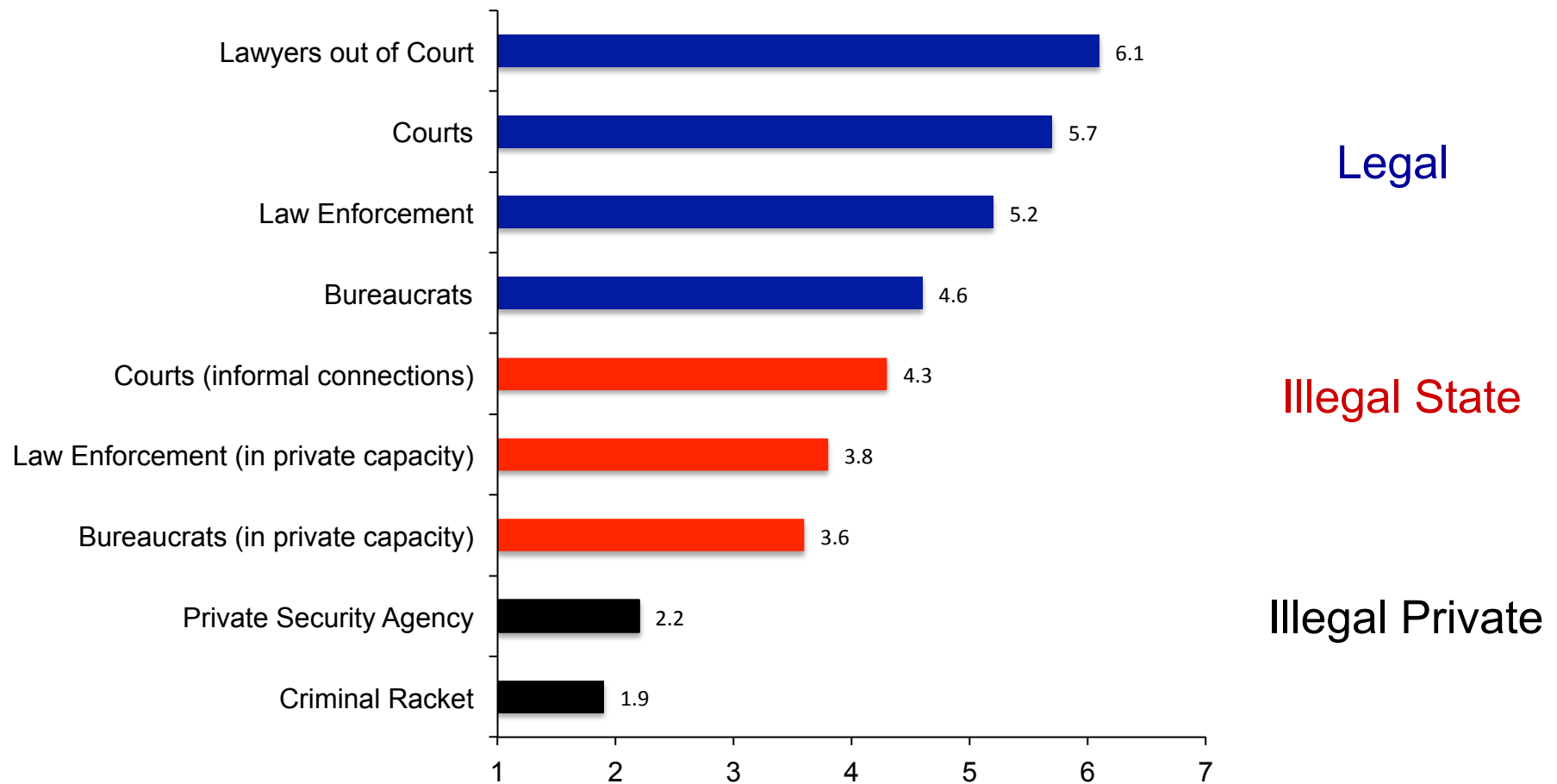
- 301 enterprises
- Summer 2010
- Stratified random sampling (size, sector, city)



# Property Protection in Today's Russia

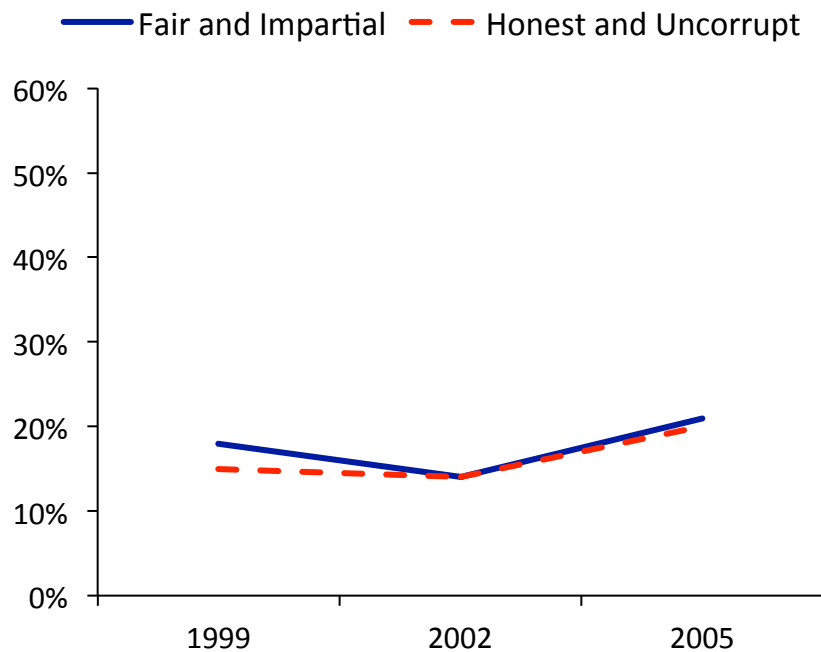
Average Response on 1 to 7 Scale

1 = Very Unlikely, 7 = Very likely



# Not Norms, Not Legal Reforms

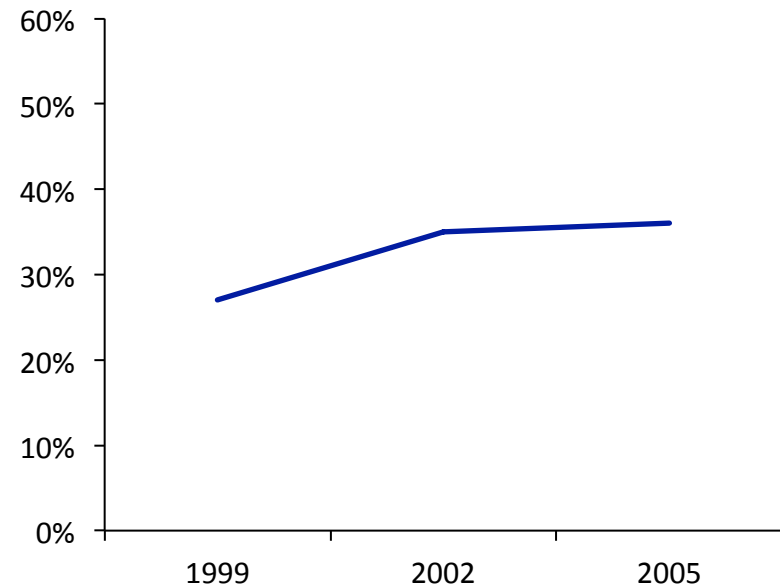
**% of Respondents Agreeing that Courts Are:**



Source: World Bank BEEPS

**% of Respondents Agreeing that:**

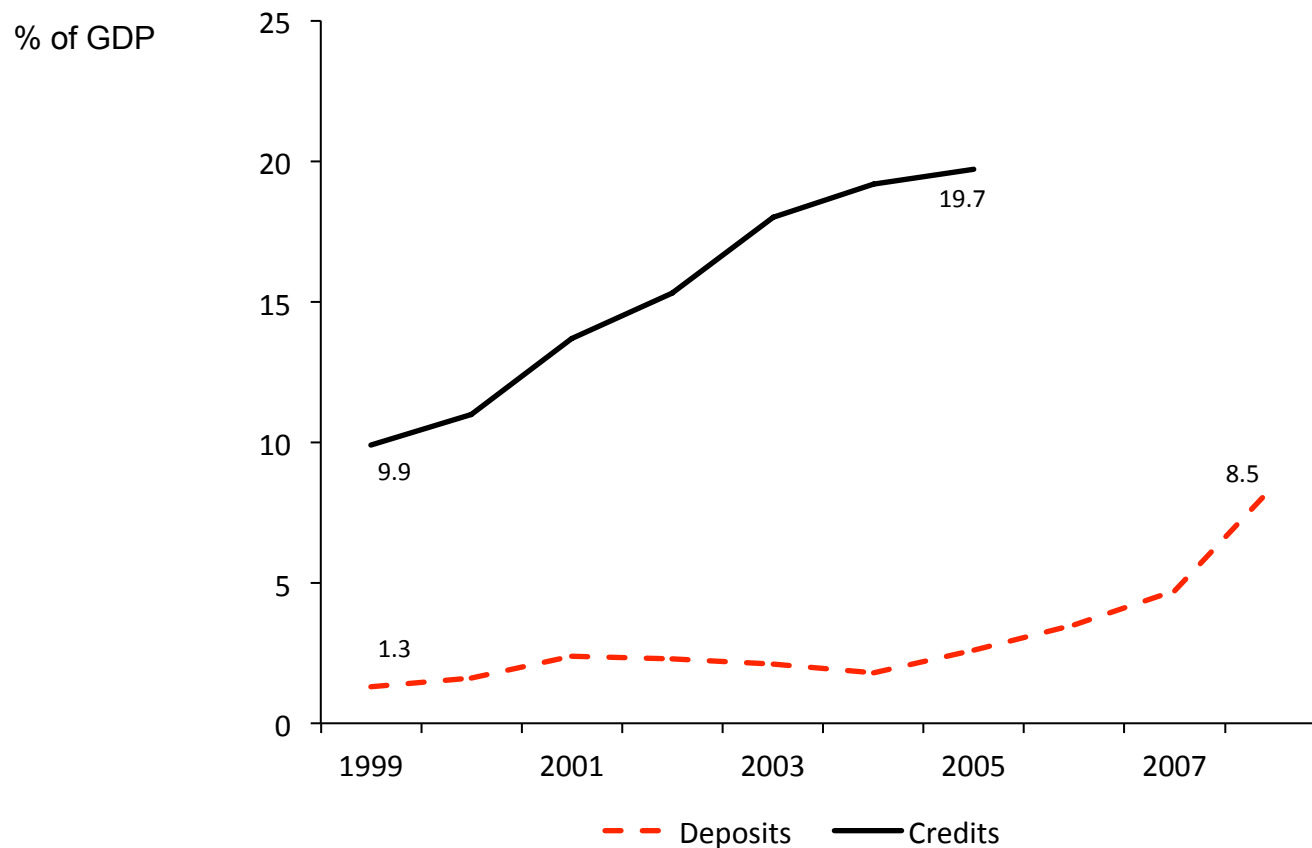
*I am confident that the legal system will uphold my contract and property rights in business disputes*



Source: World Bank BEEPS

# Changes at Firm Level: Banking Development

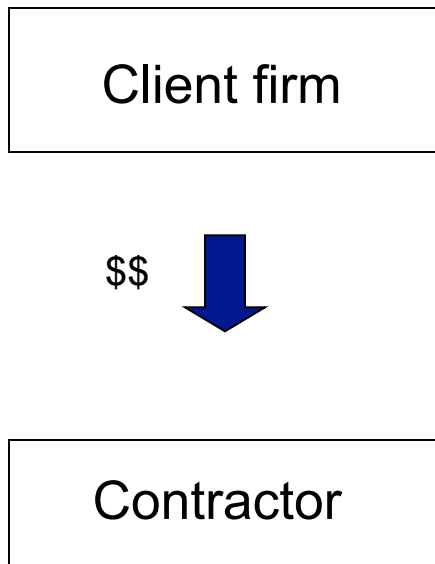
## Russian Firms' Bank Deposits and Loans



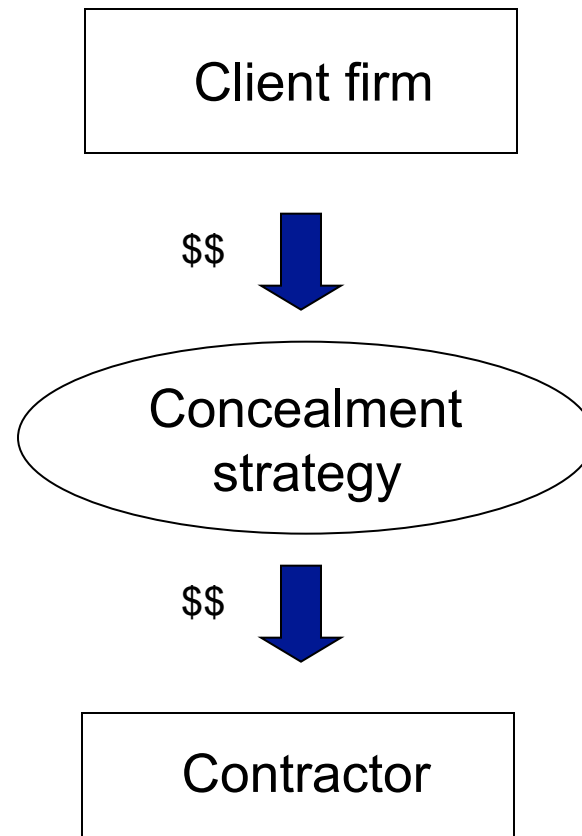
Sources: Central Bank of Russia, Tompson (2004), Noel et al. (2006)

# Banking's Impact on Strategies

## Cash Transactions



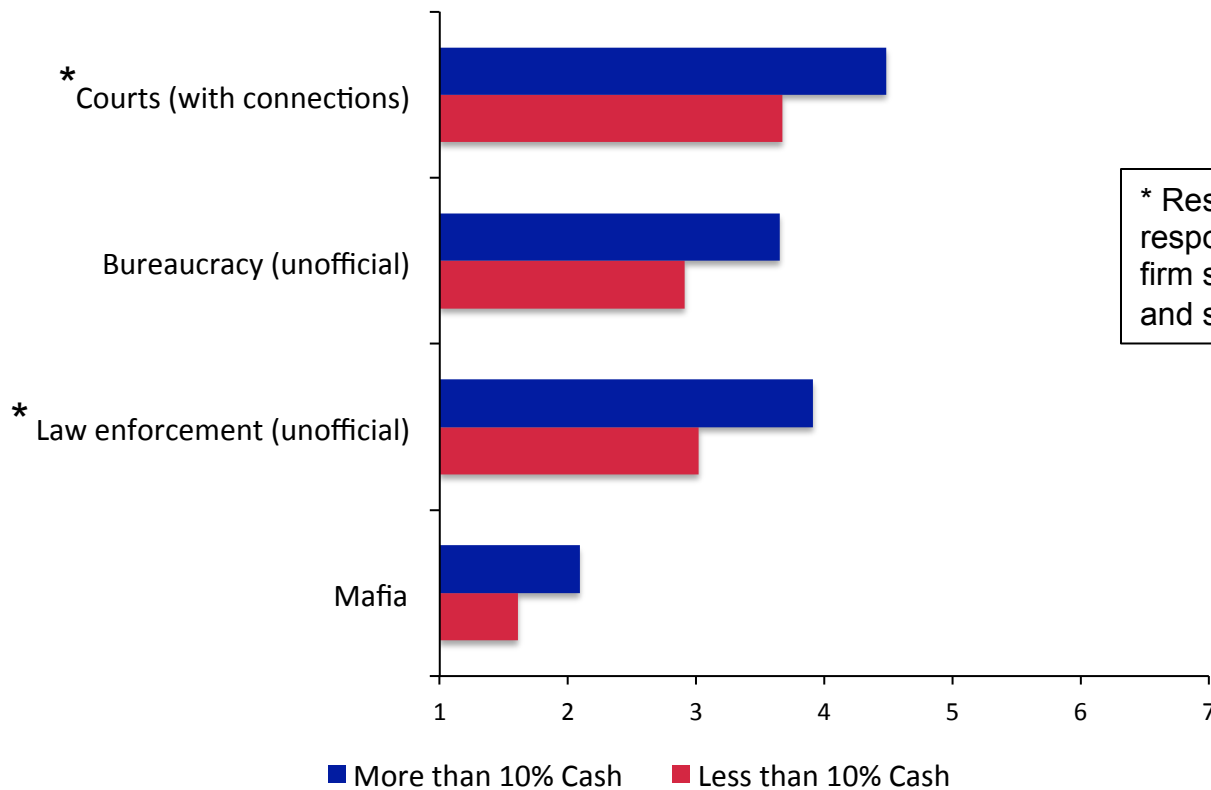
## Bank Transactions



# Less Cash, Fewer Illegal Strategies

"Approximately what percent of your firm's transactions are done in cash?"

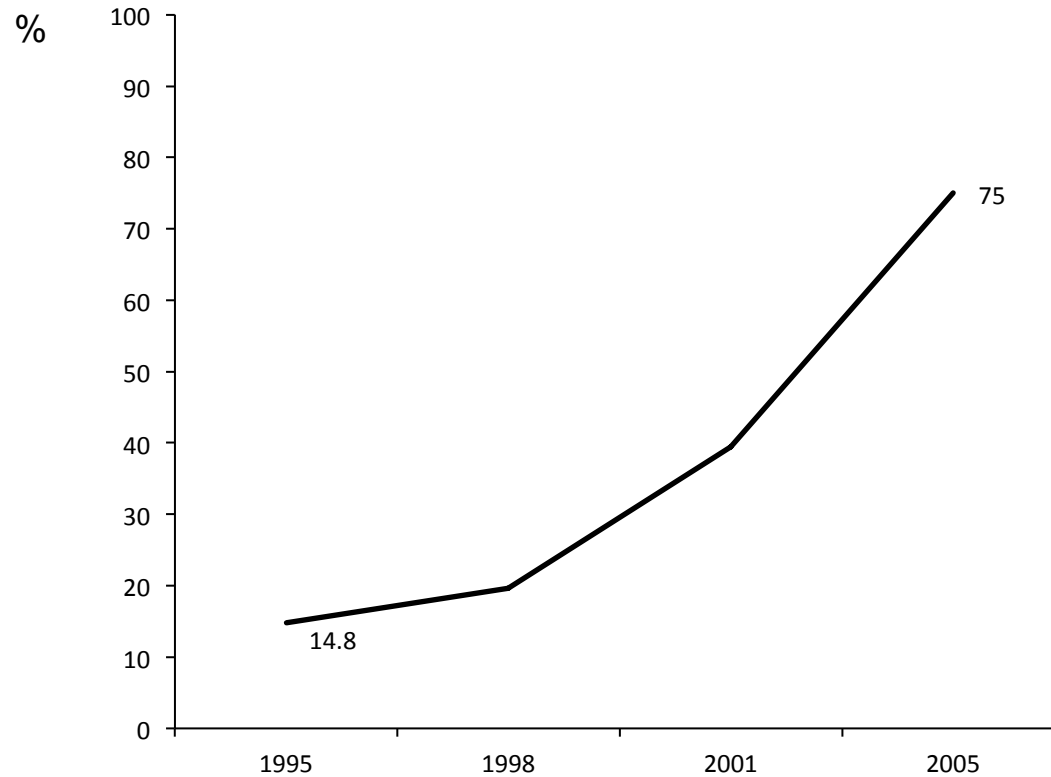
Mean Scores on 1-7 Scale (1= highly unlikely, 7 = highly likely)



\* Results hold controlling for respondent's age and gender, firm size, ownership type, city, and sector

# Changes at Firm Level: Ownership Consolidation

% of Russian Industrial Firms in which Largest Shareholder Owns at least 50%



# Consolidation's Impact on Strategies

## Mechanism #1: Long-term Outlook

Reduced conflict and  
asset stripping



Long-term  
investments



Need for stable,  
predictable business  
environment

## Mechanism #2: Aversion to Risk

*“You can risk in business but  
not in life.”*

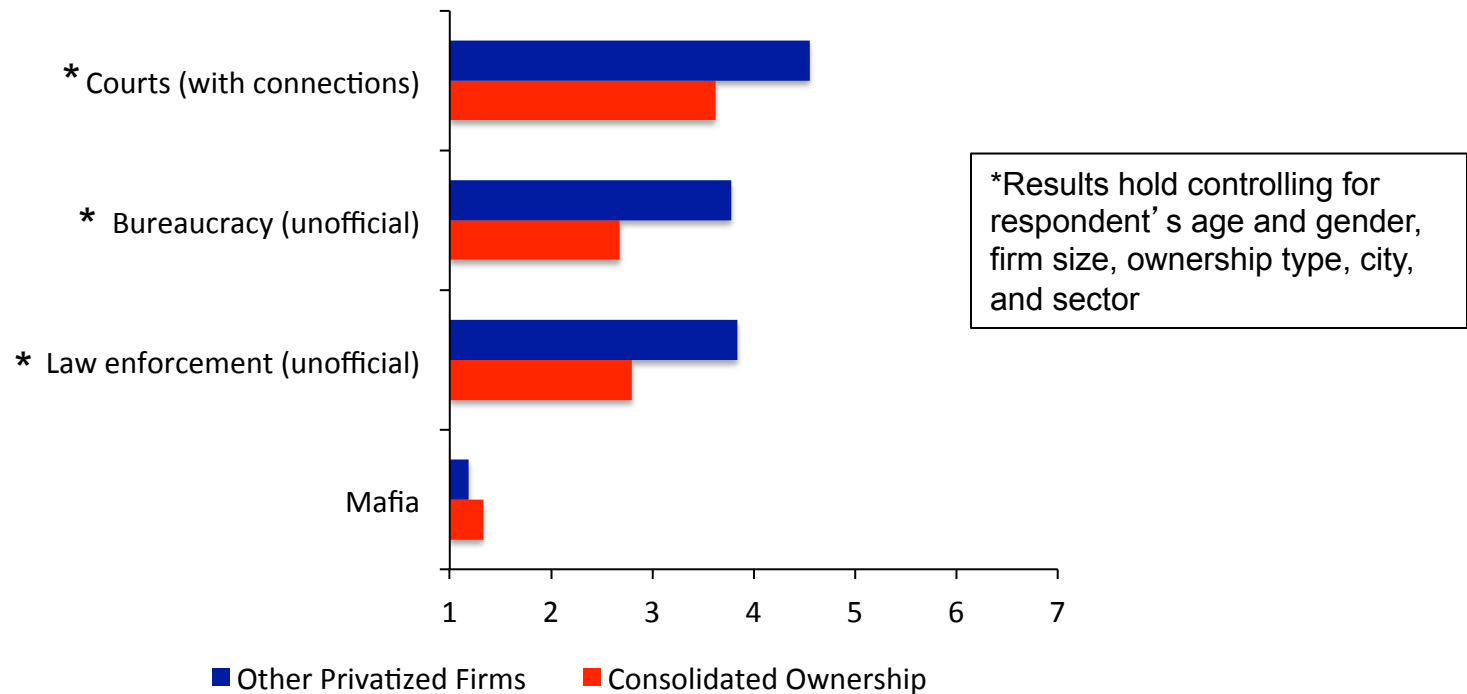
— Bankruptcy Lawyer



# More Consolidation, Fewer Illegal Strategies

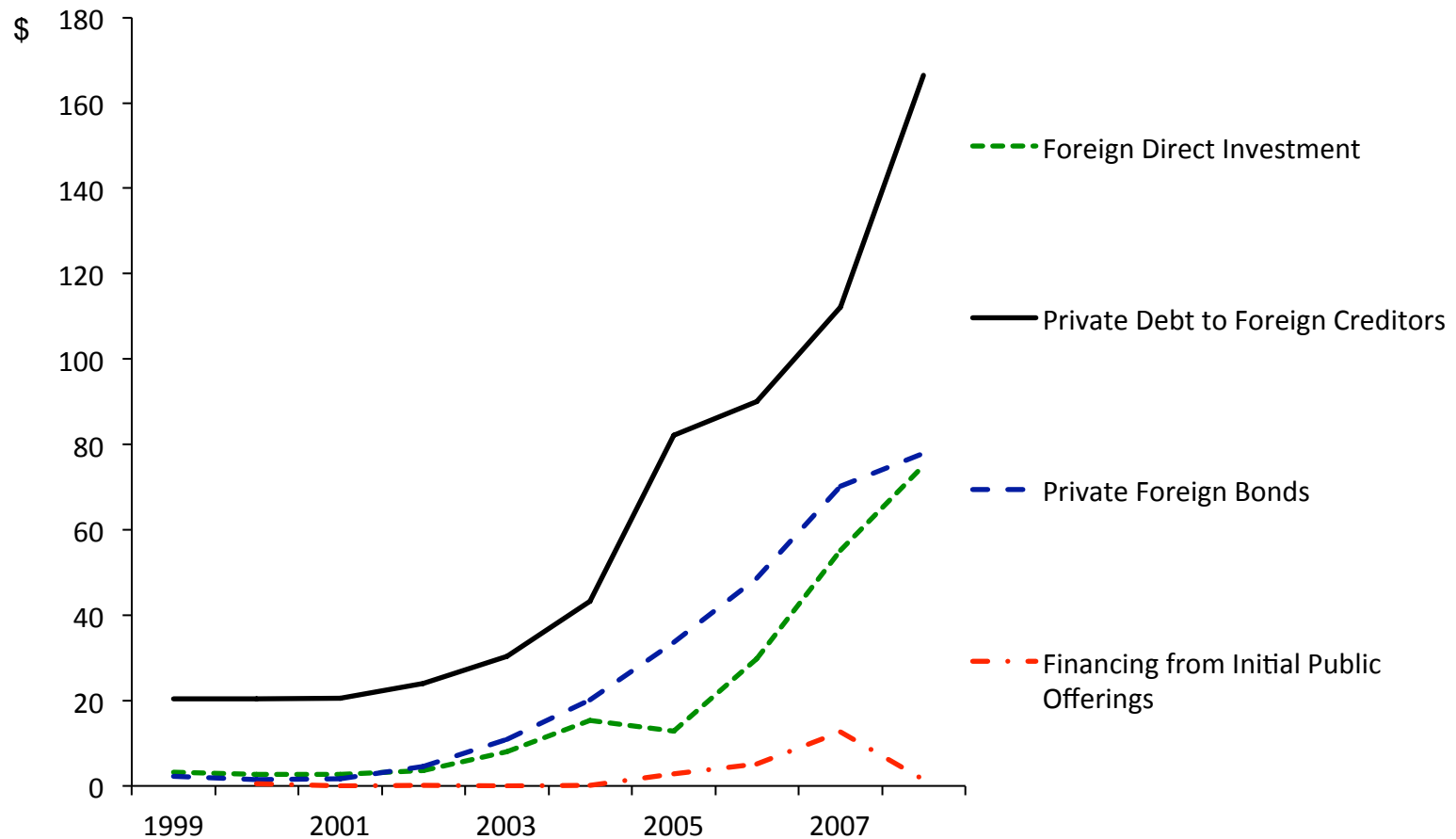
“Does your firm have a single owner or an owner with a controlling packet of shares?”

Mean Scores on 1-7 Scale (1= highly unlikely, 7 = highly likely)



# Changes at Firm Level: Foreign Investment

Reliance on Foreign Finance  
(in billions of USD)



# Foreign Finance's Impact on Strategies

## **Before Investment**

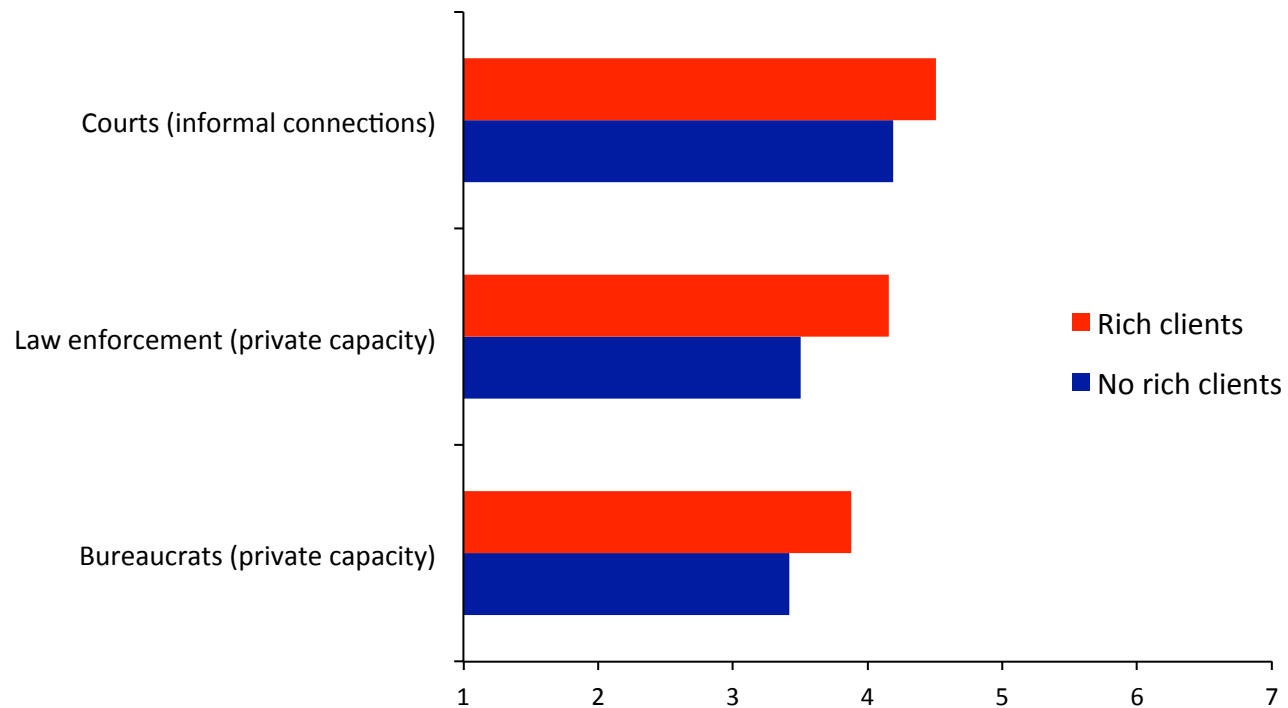
- Reputation effects

## **After Investment**

- MNCs concerned about home country regulations
- FDI attracts top law and accounting firms
- Supply chains effects
- Mentality shift

# Who uses Law, Who uses Force: Informal Networks

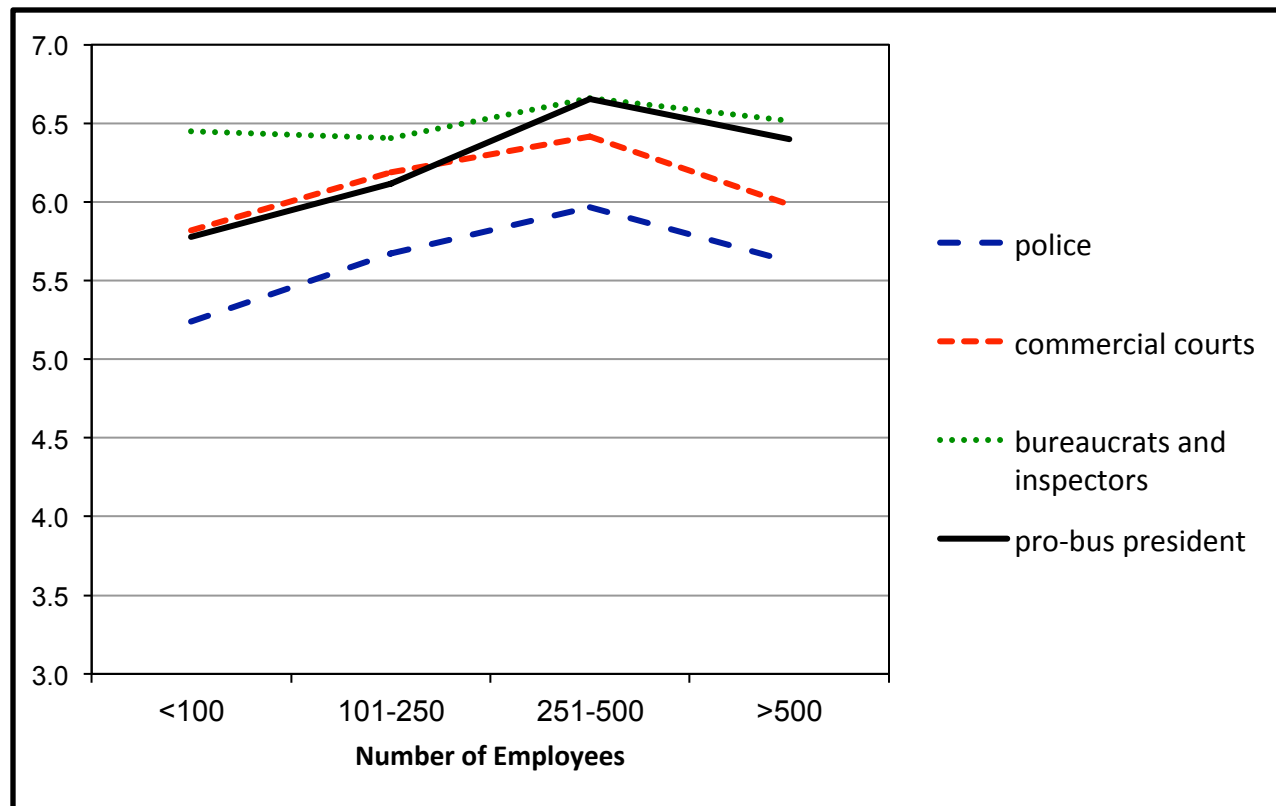
## Use of Illegal State Strategies



Mean Scores on 1-7 Scale (1= highly unlikely, 7 = highly likely)

# Who uses Law, Who uses Force: Firm Size

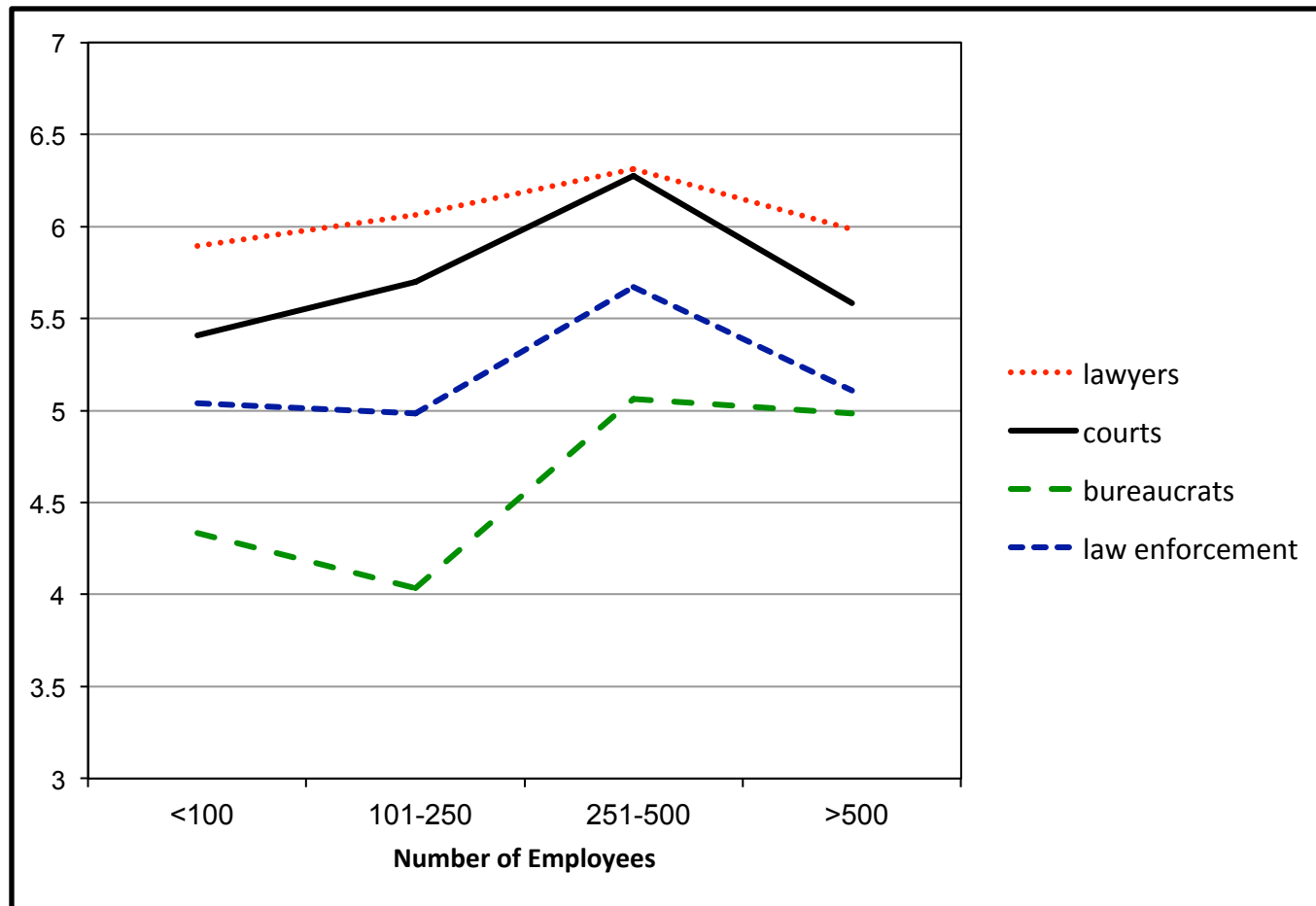
Importance of effective and non-corrupt institutions for the success of your business



Mean Scores on 1-7 Scale (1= not at all important, 7 = very important)

# Who uses Law, Who uses Force: Firm Size

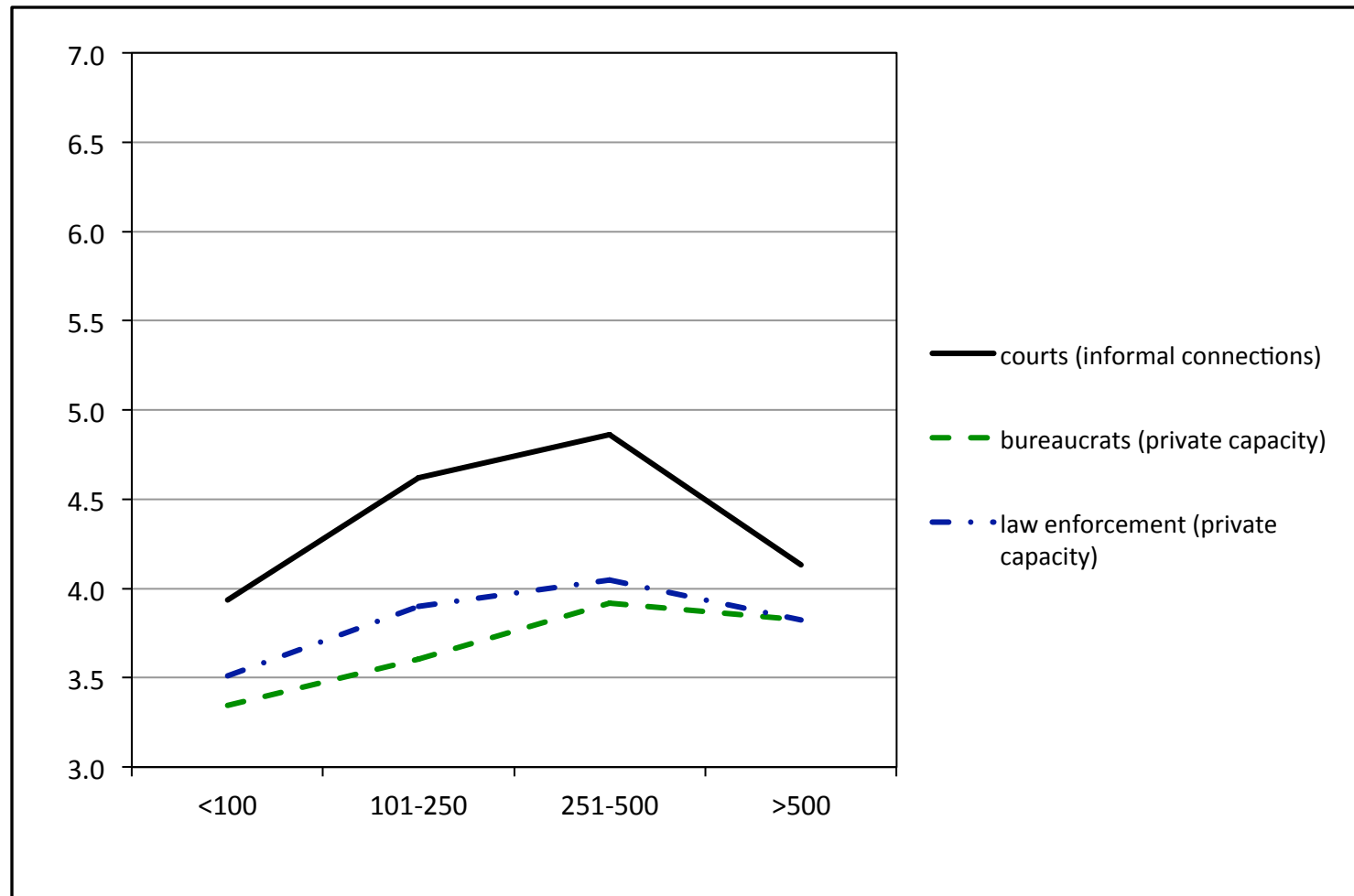
## Strategies for Protecting Property



Mean Scores on 1-7 Scale (1= highly unlikely, 7 = highly likely)

# Who uses Law, Who uses Force: Firm Size

## Strategies for Protecting Property



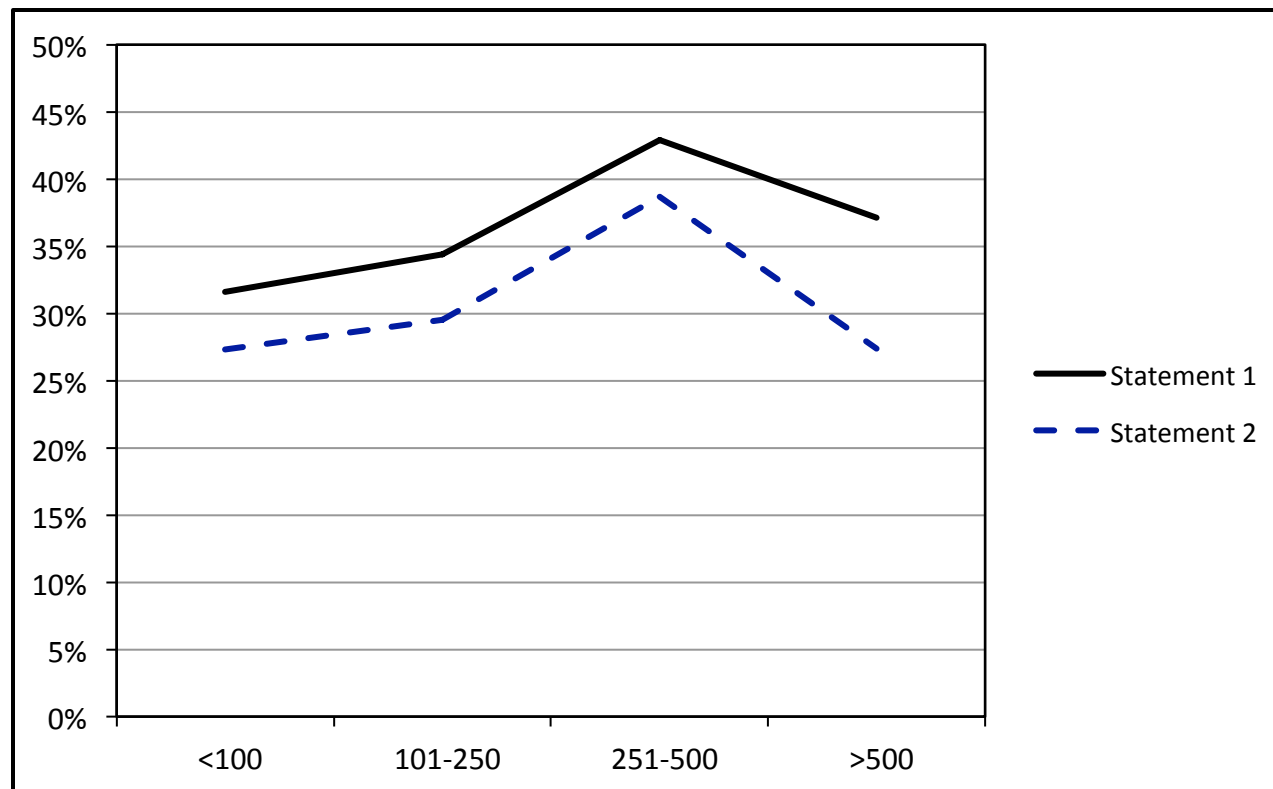
Mean Scores on 1-7 Scale (1= highly unlikely, 7 = highly likely)

# Who uses Law, Who uses Force: Firm Size

% of respondents agreeing with the statements: Laws and regulations limit the . . .

Statement 1: *Business development strategies (e.g., entering new markets) my firm would like to use.*

Statement 2: *Strategies my firm would like to use for acquiring and protecting assets.*





# State Threats

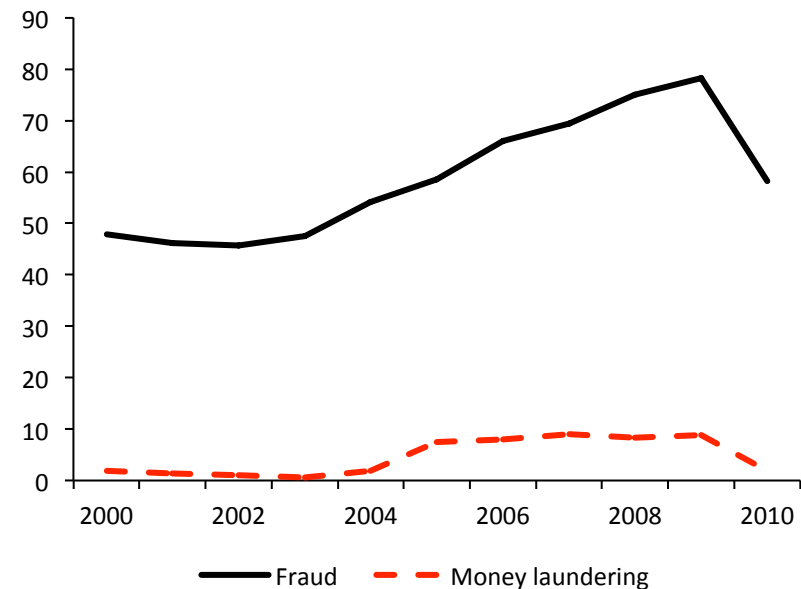
- Looking for “own little Yukos”
- Inspections, licensing, registration

*“The bandity who were here 15 years ago wore a sign that said ‘Bandit.’ It was easy to distinguish between bandity and non-bandity . . . . Today, in Moscow alone, there are over 50 organizations that have the direct right to inspect and block the work of an enterprise.”*

— Moscow small business owner

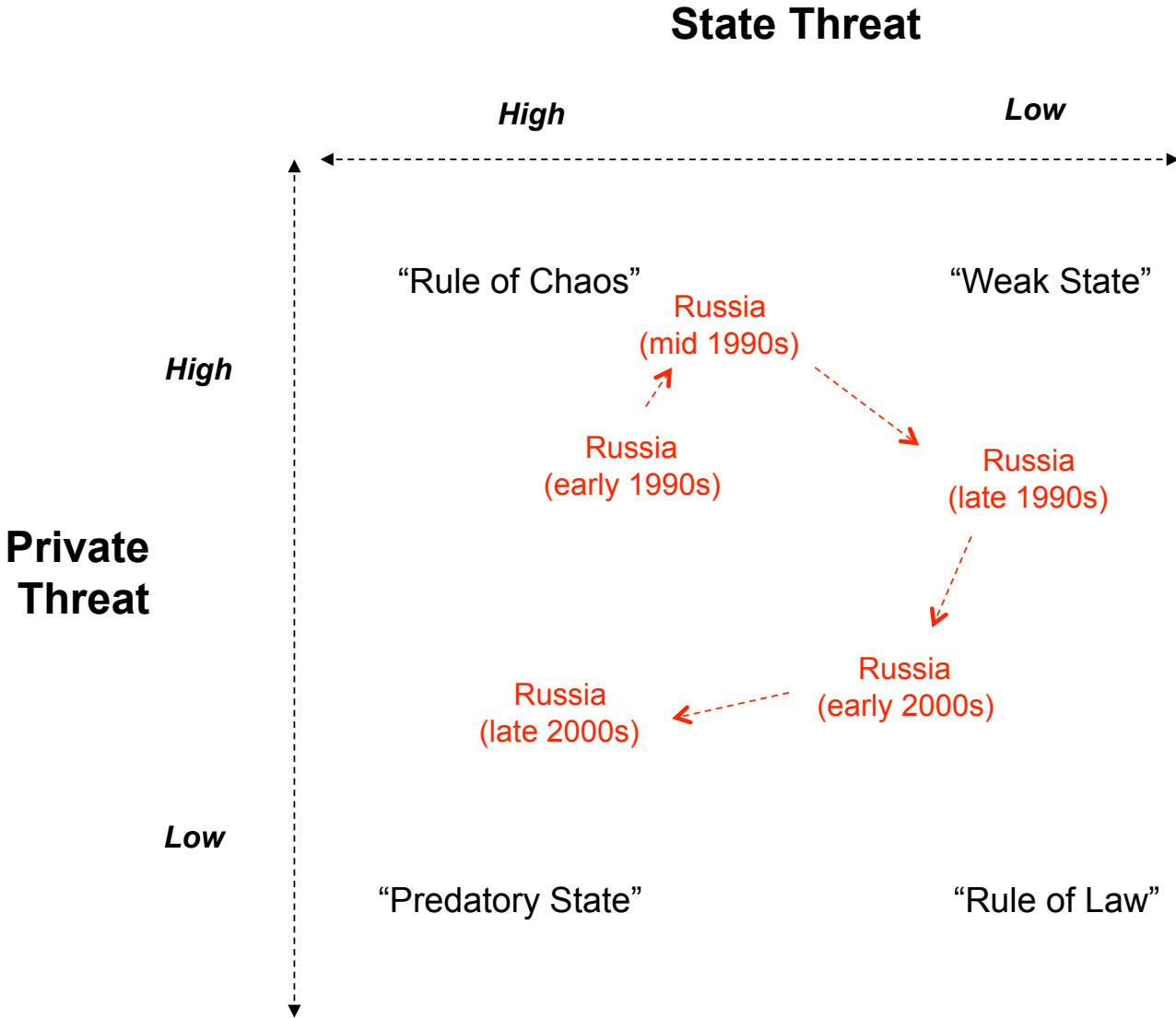
- Criminal prosecution

Economic Crimes  
(in thousands)



Source: Rosstat and RF Ministry of Internal Affairs

# Evolving Threats to Businesses in Russia



# Concluding Remarks

## Findings

- Switch from illegal private strategies to legal strategies
- Illegal state strategies persist
- State threats replacing private threats
- Changes at firm-level driving change, not norms or legal reforms

## Implications

- Target private sector “demand” for law, not only quality of institutions
- Current balance of demand for law, threats from the state unstable

# Additional Questions or Feedback

Please contact me:

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