
Corruption: A piecemeal solution



By Jane Williams

As Russia struggles to shrug off a corrupt legacy from its Soviet past, businesses are taking a step-by-step approach to managing the “informal practices” putting their companies at risk

When Russians were identified as the world’s most prolific bribe takers in a 2011 Transparency International index, it came as no surprise. Since the days of the Soviet Union, corruption and informal practices have been considered part of the intricate web of Russian life. But as globalisation intensifies calls for transparency, companies operating in the region are under pressure from investors to stamp out the kick-backs and conflicts of interest hitting their bottom lines.

Corruption is estimated to add 20-30 percent to the cost of doing business in post-Soviet countries and industry is as much the villain as the victim, helping create an ecosystem of “informal practices” that flourished with the transition to a free-market economy. By financing pet projects for regional officials; sharing sensitive information with law enforcement bodies; taking vendors’ kickbacks and appropriating company assets for their personal use, business managers and executives have been the “makers” of many corrupt practices.

But the tables are turning. And with corporate corruption, just a part of the larger phenomenon threatening the region's modernisation and economic development, Russian and international companies are realising the need to clean up their own spheres and develop anti-corruption strategies if they want to operate profitably and to their full potential within a corrupt environment.

Slicing out corruption

A recent study, *Doing Business in Russia: Informal Practices and Anti-Corruption Strategies*, demonstrates how “slicing a snake” rather than dealing with it whole is the only way to successfully manage corruption in Russia. “It’s impossible to fight corruption as a whole, it’s like trying to prevent winter from coming,” the report’s co-author Stanislav Shekshnia, INSEAD Affiliate Professor of Entrepreneurship and Family Enterprise and Coaching Practice Director for the school’s Global Leadership Centre, told INSEAD Knowledge. “Companies that prevent corruption effectively do not fight corruption as such. They identify specific practices which represent the major risks to their specific business.”

For a large oil company importing billions of dollars of materials, that risk could be a kick-back, or a conflict of interest of its executives. For a software company most risks are external, coming from fire protection inspectors and local government officials who like to get some unfair participation in the profits.

Can corruption continue?

Not all owners and managers want to change. The study surveyed CEOs of companies doing business in Russia and of these, a small group professed to believing corruption provided a long-term competitive advantage. “This group doesn’t want to prevent corruption because they think (it) is the way to do business,” Shekshnia says. A second group pretended corruption was not an issue and a third group of CEOs recognised corruption was destroying the value of their business but did not know what to do about it.

“Then we have the fourth group who say this is a business issue,” notes Shekshnia. “This group believes managing corruption is as important as managing supply or production or its customers. And this is the group of people who really get results.” They make sure their goals are very well

understood by all employees and stakeholders and set out a strategy, led from the very top, dealing very specifically with issues.

“The CEO really leads the campaign against corruption,” Shekshnia says, noting “campaign is not the right word; it’s a continuous struggle, it’s part of the business, and when they think of it this way they achieve very impressive results.”

Zero tolerance

As an example Shekshnia noted an un-named company which used informal conducts and ties to get short-term competitive advantage in the early stage of its development. After growing in size and prestige the company realised that to preserve value, it had to start managing corrupt practices that were having a destructive impact on its bottom line.

“It wasn’t easy for them to turn a page because in the past they would do things we would consider corrupt to get things done,” notes Shekshnia. But they identified specific risks - these being kickbacks from vendors and conflict of interest of its executives - and they set very clear goals of zero tolerance in those areas. They developed comprehensive rules and trained people in those rules, creating hotlines and conflict resolution schemes to address issues arising from the changes. People who did not live by the rules were “got rid of”.

“They did not say we want to become a corrupt-free organisation in three years. They said we want to become a kickbacks-free organisation in three years and we want to eradicate conflict of interest of our executives in three years. They’ve made a lot of progress and it shows,” Shekshnia says. The company’s latest report indicated the cost of production had decreased by 15 percent.

Only way to compete

While illegal business practices are just a part of the all-encompassing corruption alive in Russia many believe its business leaders, anxious to maximise profits, who will be the driving force to eradicating corruption completely. “Business leaders are much faster to react and, I think, more effective in getting things done than government (and) I think it’s important that government does not prevent them from doing what they will be doing,”

Shekshnia says noting a swift transition is unlikely. “I see it’s a long way even for the CEOs and managers of companies to fully realise that they could and should prevent corruption. (But) as global competition intensifies businesses will have to deal with this because they simply will not be competitive with companies from other countries.”

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