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Stanislav SHEKSHNIA
Alena LEDENEVA
Elena DENISOVA-SCHMIDT
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Stanislav Shekshnia*

Alena Ledeneva**

Elena Denisova-Schmidt***

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* Affiliate Professor of Entrepreneurship and Family Enterprise at INSEAD, Boulevard de Constance 77305 Fontainebleau Cedex, France. Email: stanislav.shekshnia@insead.edu

** Professor of Politics and Society at School of Slavonic & East European StudiesSchool of Arts & Social Sciences, University College London - Gower Street - London - WC1E 6BT, United Kingdom. Email: a.ledeneva@ucl.ac.uk

*** Lecturer in Russian Culture and Society at University of St. Gallen Gatterstrasse 39010 St. Gallen, Germany. Email: elena.denisova-schmidt@unisg.ch

Abstract

Despite decades-long efforts to eradicate it, corruption remains a major risk for doing business in emerging markets. Our study of 111 CEOs and owners of companies operating in Russia showed the ineffectiveness of universalistic top-down anti-corruption strategies at the firm level and tested a practical, bottom-up approach. We argue that strategies targeting specific business practices can mitigate corruption even in endemically corrupt environments such as Russia. The critical factor for the effectiveness of corporate anti-corruption policies is reflective leadership. We propose and describe an instrument for such leadership. We slice firm corruption into recognizable and manageable practices and offer an inventory of methods that reach out through hierarchical and network channels.

I Risks in endemically corrupt environments

Corruption represents one of the major risks to business at the beginning of the 21st century (Fisman and Svensson, 2007; Galang, 2012). It destroys value by increasing firms' costs, distorting markets and prompting opportunistic behavior among executives at the expense of shareholders and other stakeholders (Knack and Keefer, 1995; Mauro, 1995; Shleifer and Vishny, 1993; Globerman and Shapiro, 2003; Getz and Volkema, 2001). The existing academic and practitioner-oriented literature documents the negative impact of corruption at macro and micro levels and provides theoretical explanations for the persistence of business corruption from all possible angles: economic, managerial, sociological, psychological and anthropological (Rose-Ackerman, 1978; North, 1990; Williamson, 1991, Husted, 1999; La Porta et al., 1999; You and Khagram, 2005).

Yet increasing expertise on the subject does not seem to translate into effective control of business corruption. Despite decades of effort by national and international government to eradicate corruption, it remains one of the major obstacles to doing business, especially in fast-growing economies like China, India, Brazil, Indonesia and Russia.[1] At the firm level, many companies implement anti-corruption strategies and introduce monitoring mechanisms, but the outcome remains limited. While 80% of firms in the PwC survey say they have some form of anti-corruption programme in place, only 22% are confident of their effectiveness. More often than not, such programmes are neither clearly communicated nor sufficiently enforced. Only 40% of respondents believe that current controls are effective at identifying high-risk business partners or suspect disbursements.[2]

In this article we focus on firms operating in emerging markets, specifically Russia, and evaluate the impact of corruption on firms operating there. We establish how firms can mitigate corruption risks, how it can be done effectively, and what corporate leaders working in economies with endemic corruption can learn from the Russian example. Russia is an interesting case: not only it is the second largest emerging economy in the world after China, but it is also labeled one of the most corrupt countries.[3] Since 2008, the Russian government has undertaken significant anti-corruption efforts in line with OECD, WTO and World Bank policy recommendations, but the results of such efforts at the firm level are far from encouraging. Most experts would concur that the spread of business corruption in the country continues to increase.[4]

Business corruption in Russia

In the words of IKEA founder Ingvar Kamprad, the situation vis-à-vis corruption in Russia is "in a class of its own". It is not that the requisite components of the rule of law are absent; rather, the rule of law has been diverted by a set of informal practices and unwritten rules. As John Browne, former CEO of BP, observed in his memoirs, "The problem is not the lack of laws, but their selective application. This is what creates the sense of lawlessness. While bureaucratic legalistic processes are the hallmark of Russia, you never know whether someone will turn a blind eye or whether the laws will be applied to the hilt."[5]

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[1] See indexes for all four at http://www.heritage.org/index/country/russia

[2] The PricewaterhouseCoopers Report, 'Confronting Corruption: The business case for an effective anti-corruption program,' available online, http://www.pwc.com/gx/en/forensic-accounting-dispute-consulting-services/business-case-anti-corruption-programme.jhtml

[3] It is the TI's attempt to measure the perception of corporate corruption rather than the perception of public sector corruption reflected in the aggregate Corruption Perception Index, where in 2012 Russia is placed 133 out of 174 countries with an absolute score 2.1 on the low side of the 1 to 10 scale.

[4] 'Independent experts maintain that corruption consumes as much of 25 percent of Russia's GDP. A World Bank report puts this figure at 48 percent' in Alexandra Kalinina, 'Corruption in Russia as a Business', Institute of Modern Russia, 29 January 2013, at http://imrussia.org/en/society/376-corruption-in-russia-as-a-business See also: Control Risks Russia/CIS Risk Watch at http://www.controlrisks.com/OurThinking/Pages/Combating-corruption-in-Russia.aspx.

[5] Quoted in Graham Stack, 'Selective Justice' in Russia Profile. org, 15 March 2010, available online at http://russiaprofile.org/politics/a1268678170.html

Although the themes of business corruption in Russia have been widely researched in a comparative context (BEEPS), research had mainly focused on general perceptions of corruption and specific forms such as bribe-taking (i.e. a form of corruption that can be measured). In 2010, Russia ranked bottom of 22 countries assessed for Transparency International's Bribe Payers Index. However, little is known about other forms of corporate corruption, such as collusion, conflicts of interest, cronyism and nepotism, fraud, gifts and hospitality, lobbying, influence-peddling and tunneling, which are arguably more widespread.

Such an incomplete picture offers fertile ground for the emergence of popular perceptions of the origins and nature of business corruption in Russia, the most popular being that corrupt government officials at all levels extort rents from innocent businesses, which suffer from bureaucratic red-tape and are forced to engage in shadowy practices**.** Businessmen often justify their shadowy practices, such as paying employees unofficially, as in the example below, by the harshness of constraints:

> In Khabarovsk region, according to an agreement with the unions, the monthly recommended minimum wage is about EUR135. Both the regional pension fund and the regional administration put pressure on businesses to pay at least that. So that's what I do, I pay my employees EUR135 minimal wage. Officially. The rest they get in the envelopes. I do it because if I showed the real wage, about EUR570, 13% must be paid in personal tax by employee, another 24% goes for social tax and other payments – roughly, one third has to go to the state. Moreover, I have to pay office rent, depreciation, accessories' cost, electricity bills, Internet bills, etc., so in the end I work with losses. The laws are made so that you have to pay one third just for doing business … they [the state] provoke the entrepreneur in some way to make shadow business, not showing all of the income and expenses, making a secret of commerce.

Apart from the state, businessmen also blame state officials for extortion and rent-seeking behavior. To shed some light on business corruption in Russia, its scope and impact on business, to understand how business leaders perceive corruption and seek to mitigate its impact, we conducted a survey of business leaders and complemented it with in-depth interviews and executive workshops to frame the outcomes of the survey. We devised an approach based on "slicing" corruption into constituent informal practices, and collected data in 111 firms that allowed us to gain insights into the workings of firms in endemically corrupt environments and that we consider worth sharing.

II Slicing the corruption 'elephant': the CEOs survey and its results

'Bottom-up' approach: making a list of informal practices

The proposed approach allows us to monitor the occurrence of informal practices in daily business operations, to assess the extent to which informal practices prevail in corporate settings, and to identify blind spots which are not addressed by existing anti-corruption strategies at the firm level. Informal practices are best defined as regular sets of strategies used by actors for getting things done while navigating multiple sets of rules and constraints, both formal and informal, legal and ethical, written and unwritten (Ledeneva 2006). Informal practices adjust to changing legal frameworks and social norms, and evolve to reflect changes in the rules of the game (Ledeneva and Shekshnia 2011, Denisova-Schmidt 2012). They are convenient indicators of change at the firm level and help identify initiators, beneficiaries and cost bearers of corrupt practices for the purposes of differentiating and directing anti-corruption strategies. The data can also improve the robustness of already existing anti-corruption strategies. We devised a questionnaire for CEOs, owners and board members that included a list of informal practices defined on the basis of a multi-stage process outlined below.

At the exploratory stage, we examined existing typologies of corruption and conducted a content analysis of the Russian business media in order to identify corrupt practices that correspond to these types. We conducted interviews with Russian CEOs and directors, who were asked to comment on their familiarity with each practice, as well as its frequency. Such practices may not be perceived as corrupt by their protagonists but nourish the corrupt environment indirectly. For example, one of the executives surveyed, who runs a transportation company, explained that the firm's service centers routinely offer repair and car-wash free of charge for the traffic police because "they have such a small budget for repairing their police cars."

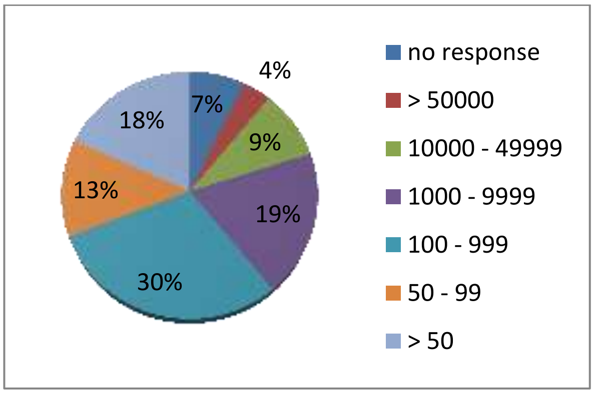
The list of specific practices, assembled in pilot interviews and content-analysis of the media, was crosschecked with and adapted from existing typologies of "corruption" in post-communist societies (Tanzi 1998, Karklins 2005, Knack 2006) and informal practices (Ledeneva 2006; 2009; 2013).[6] It features, how example, some Russian traditional forms of informal governance, such as *krugovaya poruka*, associated with collective [ir]responsibility, co-dependence or mutual concealment, and gathering of compromising information (*kompromat*) and manipulative use of information.

In our pilot survey, we reserved a space for respondents to add to our list of informal practices. Only two practices were added. Among obvious reasons why open choice prompts in survey questions remain unanswered (Groves et al. 2001), the low number of additions could be interpreted as sufficiency of the suggested list, or for the unarticulated nature of informal practices for those who use them routinely.

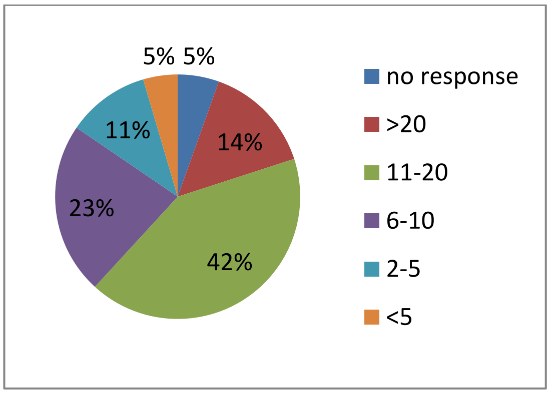
In the introduction to the questionnaire, we explained the term "informal practices" as referring to commonly-used sets of strategies used by actors for getting things done. We asked the participants to report anonymously to what extent their firm engaged in each practice and strategy, choosing from three possible answers: "systematically", "sometimes", "never." Anonymity was emphasized and preserved, even where it created limitations to our analysis.

As illustrated in Figure 3, a broad range of companies (by size, years in business, industry, and ownership structure) was represented in our dataset.

Figure 3. Companies in the dataset (N=111).



Companies by size



Companies by years in business

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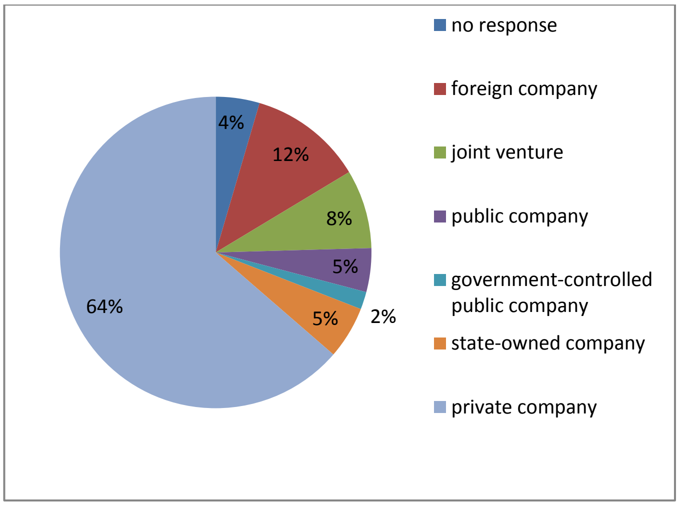
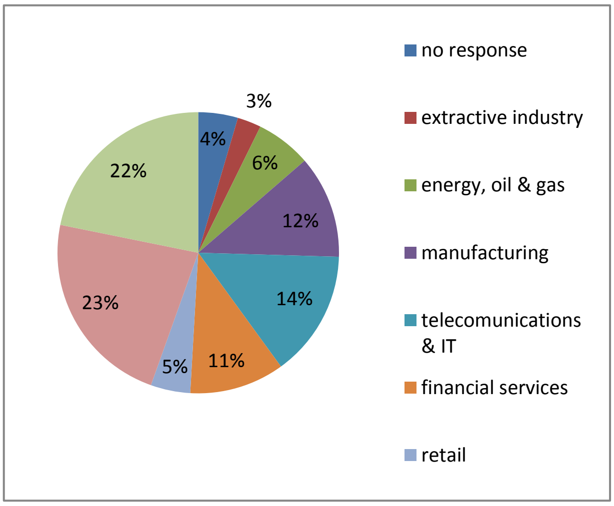
[6] Types are "observed" and articulated with reference to degree (petty, administrative, state capture); frequency (routine or extraordinary, exercised by many or by few); motivation (coercive or collusive); level (centralized or decentralized); or scale (predictable or arbitrary). All of these are variations on the theme of deviance and are described in terms that are unlikely to be used by "participants" in corrupt practices (Johnston 1986, 2006; Tanzi 1998; Karklins 2005). In a 2006 World Bank paper, Stephen Knack (2006) organizes these variations into six dimensions of corruption: (1) by level of political system (central government, provincial, municipal), roughly corresponding to the terms "petty" and "grand" corruption; (2) by purpose of the improper actions: to influence the content of laws and rules ("state capture") or to influence their implementation ("administrative corruption"); (3) by the actors involved in the corrupt transaction: firms, households, and public officials; (4) by characteristics of a particular set of actors, for example bribes required for large versus small firms, or for rich versus poor households; (5) by administrative agency or service: tax and customs, business licenses, inspections, utility connections, courts, or public education and health facilities; (6) by incidence or magnitude of bribes, or by the uncertainty they create for businesses and households.



Companies by ownership structure



Companies by industry

Frequency of informal practices: an indicator of a systemic problem or a guide for action?

The most basic, but also most interesting, result is the relative frequency of informal practices, summarized in Table 1 below.

Table 1: Most frequently reported practices (number of companies, in descending order by 'not never' responses)

Practice	systematically	sometimes	not never = systematically + sometimes	never
Funding of publications in regional press and broadcasts on regional TV and radio	19	61	**80**	27
Disregarding 'conflict of interest' of regional managers, e.g. their use of companies affiliated to them, recruitment of relatives etc.	13	67	**80**	26
Selecting vendors/ contractors with whom regional managers have informal relationships or arrangements	13	66	**79**	28
Extorting bribes by regional regulatory agencies: tax inspectorate, sanitation service, police etc.	25	51	**76**	28
Receiving kickbacks or other informal rewards (for example, expensive gifts) by regional managers from vendors, suppliers, buyers	5	65	**70**	36
Paying for the services of regional regulatory agencies: tax inspectorate, customs, sanitation service, police, fire inspectorate, standardization agencies etc.	29	39	**68**	36
Using company staff to carry out personal assignments from regional managers (assistance to family members, construction and decoration of housing, organization of holidays and entertainment)	6	61	**67**	41
Using informal connections and networks to obtain state orders (state procurement) and loans from state banks	11	49	**60**	44
Using informal pressure on regional managers and verbal instructions by representatives of federal and regional authorities ("telephone rule")	7	50	**57**	48
Regional authorities' pressure on the company's regional managers to provide funding for their regional programmes and projects	13	39	**52**	53
Selecting winners of open tenders at the regional level on the basis of informal relationships and arrangements	10	42	**52**	55
Paying salaries and bonuses to staff of regional subdivisions in cash without paying social tax	22	29	**51**	59
Using company funds by heads of regional subdivisions to buy expensive cars, telephones, to pay for travel etc.	5	45	**50**	60
Paying or providing services (foreign trips, medical expenses etc.) to regional executive authorities	9	34	**43**	64
Creating informal alliances with other companies in the region to exert influence on regional authorities	2	33	**35**	70
Receiving subsidies and tax benefits from regional authorities	8	26	**34**	71
Paying exorbitant board of directors' fees to cronies	3	30	**33**	75
Paying or providing services (foreign trips, medical expenses etc.) to regional legislative authorities	6	26	**32**	74
Extorting bribes by regional authorities	10	23	**33**	73
Using informal tools (compromising documents and information, material from security services, *krugovaya poruka*) against competitors	7	25	**32**	73
Paying to police and prosecution service to open or close criminal cases	8	22	**30**	75
Using informal tools (compromising documents and information, material from security services, *krugovaya poruka*) to manage company staff	3	28	**31**	74
Paying for favourable court rulings by the regional courts	10	19	**29**	75
Paying for tax audits and other inspections in regional subdivisions with pre-agreed results	4	20	**24**	82
Using informal tools (compromising documents and information, material from security services, *krugovaya poruka*) to exert pressure on regional authorities	6	9	**15**	87
Leasing of the company's production or office premises or production equipment by regional managers for personal gain	1	12	**13**	96
Receiving commissions or other material benefits from job candidates by heads of regional subdivisions	3	3	**6**	99

Overall, the findings suggest that the level of penetration of informal practices is sufficiently high to claim that informal practices are fairly ubiquitous in the daily operations of Russian businesses. It is important, however, to assess the systemic nature of these practices. We experimented with a number of weighting schemes for systemically used practices and determined just how different the top ten practices would be if we focused on systemically used practices. We evaluated the relative importance of each practice by weighting respondents' answers using the following scale: 0 points for "never", 2 points for "sometimes", and 5 points for "systematically". Weighting is essential to identify the most systematically occurring problems for the purposes of inner-company management. The most systematically used practice scored 278 points (out of 555 possible; 156 average), while the least used practice acquired as little as 24 points (see Table 2). Practices scoring the highest are excellent pointers for the required change, whereas the lowest scoring practices are a good proxy for a change that has already has taken place.[7]

Table 2: The most and least systematically used practices (in the descending order by weighted points)

Practice	Weight	Points
Extorting bribes by regional regulatory agencies: tax inspectorate, sanitation service, police etc.	6.60%	278
Funding of publications in regional press and broadcasts on regional TV and radio	6.60%	278
Disregarding 'conflict of interest' of regional managers, e.g. their use of companies affiliated to them, recruitment of relatives etc.	6.32%	266
Selecting vendors/contractors with whom regional managers have informal relationships or arrangements	6.24%	263
Paying for the services of regional regulatory agencies: tax inspectorate, customs, sanitation service, police, fire inspectorate, standardization agencies etc.	6.22%	262
Receiving kickbacks or other informal rewards (for example, expensive gifts) by regional managers from vendors, suppliers, buyers	5.22%	220
Using company staff to carry out personal assignments from regional managers (assistance to family members, construction and decoration of housing, organization of holidays and entertainment)	5.06%	213
Using informal connections and networks to obtain state orders (state procurement) and loans from state banks	4.80%	202
Paying salaries and bonuses to staff of regional subdivisions in cash without paying social tax	4.68%	197
… some practices are omitted here	…	…
Using informal tools (compromising documents and information, material from security services, *krugovaya poruka*) to manage company staff	2.35%	99
Paying for tax audits and other inspections in regional subdivisions with pre-agreed results	1.90%	80
Using informal tools (compromising documents and information, material from security services, *krugovaya poruka*) to exert pressure on regional authorities	1.35%	57
Leasing of the company's production or office premises or production equipment by regional managers for personal gain	0.97%	41
Receiving commissions or other material benefits from job candidates by heads of regional subdivisions	0.57%	24
Total	100%	4212

The true face of business corruption: opportune executives, rent-seeking officials and cost-bearing shareholders

Building on the existing concept of a beneficiary of corrupt actions as "the actor deriving direct and primary benefit from the [corrupt – authors] action" (Galang, 2012), for each practice we identified an initiating actor, benefiting actor(s) and actor(s) absorbing the incurred costs from the following eight categories of company stakeholders: shareholders, executives, employees, government officials, suppliers, customers, competitors, and society at large. For example, "extortion by

[7] We include the least systematically used informal practices in order to illustrate changes that have happened since the transitional period in Russia in the 1990s. Practices in the bottom of the table scored high in the content analysis of the media and are still occasionally used, but they have lost their systemic nature and now serve as the best indicators of the effectiveness of the reforms conducted in their respective areas.

regional control and enforcement bodies" is interpreted as initiated by officials, benefiting officials, with the cost borne by shareholders, whereas "paying representatives of regional control and enforcement bodies" is interpreted as initiated by executives, benefiting executives, with costs borne by shareholders.[8] Applying familiar terms to emphasize nuances of a bribe transaction – that is, separating bribe offering from bribe extortion – reduced arbitrariness in assigning practices with "initiator", "beneficiary", "cost-bearer" categories. In some cases, there could be more than one beneficiary to a practice, but given that we didn't have context, we have counted the direct and primary beneficiary.[9]

The outcomes are presented in Table 3, where points relate to the aggregate score of practices according to the scheme outlined above (*systematically* = 5; *sometimes* = 3; *never* = 0), and weight pertains to the relative weight of individual cells in relation to respective columns, i.e. *initiator*, *beneficiary*, and *cost-bearer*.

Table 3: Number of practices/ aggregate score associated with company stakeholders

	Initiator	**Beneficiary**	**Cost-bearer**
Officials	4 practices 764 points 18.14% weight	7 practices 1281 points 30.41% weight	N/A
Executives	21 practices 3204 points 76.07% weight	12 practices 1652 points 39.22% weight	N/A
Employees	1 practice 24 points 0.57% weight	N/A	3 practices 336 points 8.19% weight
Shareholders	N/A	6 practices 840 points 19.94% weight	16 practices 2870 points 69.95% weight
Vendors	1 practice 220 points 5.22% weight	2 practices 439 points 10.42% weight	N/A
Customers	N/A	N/A	N/A
Society at large	N/A	N/A	6 practices 787 points 19.18% weight
Competitors	N/A	N/A	1 practice 110 points 2.68% weight
Total	27 practices 4212 points 100% weight	27 practices 4212 points 100% weight	26 practices* 4103 points 100% weight

From the survey data a number of important conclusions emerged about the state of business corruption in Russia. First, corruption is omnipresent and has many faces – both local and foreign companies report high levels of informal practices on top of the bribe-giving registered in the cross-national surveys (see BEEPS 2008/9 and 2012/13). As seen from Table 2, government corruption-related practices received the highest number of total points from the respondents. Among the top 10 practices are five that are government-related and four represent internal corruption. Corruption

[8] For one of the practices, "Creating informal alliances with other companies in the region to exert influence on regional authorities," initiated by executives beneficiaries or cost-bearers cannot be identified since it may lead to multiple outcomes. Therefore we did not include it into the Table 3.

[9] There can be cases where it is indeed the company (shareholders and employees) as such that benefits from corruption rather than its executives or other actors. In a recent court case, for instance, two Siemens employees were sentenced for having paid three employees of the state-owned Italian company Enel EUR6m to obtain contracts worth an estimated EUR338m. The ruling explicitly found that the Siemens employees did not enrich themselves, but acted indeed in the interest of their company. So, the beneficiaries are certainly the 3 bribed ENEL employees, but also Siemens as a player in a competitive market – and hence ultimately its shareholders and employees. In our codification, primary beneficiary would be the 3 bribed ENEL employees.

is a serious drain on businesses operating in Russia regardless of their size, age or ownership structure. Both acknowledged types of corruption – the organization of corrupt individuals (OCI) and corrupt organizations (CO) – flourish in Russian business. From the ten most frequently reported practices, six could be qualified as top-down CO practices and four as bottom-up OCI practices, that need to be analyzed further in order to enable managers to change "thoroughly corrupt organizations" (Pinto, Leana & Pil, 2008).

Second, contrary to the popular view, a corrupt government official is not the central figure in Russian business corruption story. Our survey demonstrates that corporate executives occupy the center stage. They are the initiators of 76% of the reported practices, beneficiaries in almost 38%, and they do not bear the cost of a single corrupt practice from the survey. Government officials initiate less than 20% of reported cases and benefit from 32%. One should keep in mind that this is a self-reporting survey. Hence, despite its anonymity some of the respondents may have reported a 'desired' rather than actual situation. Yet this factor makes our conclusions even more robust.

Third, shareholders are the main victims of business corruption in Russia – they bear the cost of almost 70% of corrupt acts and benefit from only 20% of them. Corporate executives abuse their powers in pursuing personal and 'corporate' interests, as defined by themselves, at the expense of shareholders. Agency cost is a serious issue in Russian business and one of the primary drivers of corrupt acts (Banfield, 1975; Jensen & Mecklieng 1976; Klitgaard, 1988). Our post-survey in-depth interviews with the executives confirmed and reinforced the second and the third conclusions – that most executives perceive themselves either as helpless victims of the corrupt acts of the government officials (*tolerate* attitude) or deny any involvement (*refrain*). Such 'misrecognition' of their own role allows them to preserve some level of psychological comfort (Bourdieu 1990, Ledeneva 1998, Kets de Vries, 2003) at the expense of shareholder value.

Executives' attitudes to corruption mitigation: from exploiting to mitigating

To complement the quantitative survey, we conducted 20 in-depth interviews with the CEO participating in the study and four executive workshops with senior managers from three companies in the survey. These conversations helped us to identify four typical positions that executives take up in relation to corruption.

The first – to *tolerate* – is the most widespread among interviewees: "Because the whole society is corrupt, and unless systemic changes occure, corruption cannot be effectively dealt with and is widely accepted. It is not up to us to promote anti-corruption changes; the government should take care of it." The second approach – to *exploit* – is expressed openly only by a small minority: "Since the Russian society is deeply corrupt, corruption should not only be accepted but also proactively used to advance business interests." In other words, the endemic nature of corruption makes it a legitimate instrument for doing business. The third – to *refrain* – is also articulated by a small minority: "Even in endemically corrupt environment, where corruption is generally accepted, it is possible to avoid it and to run business without it playing a role. Others may suffer from corruption but we find a way to stay away from it." The fourth – to *manage* – is shared by a select few: "Corruption is a problem and we are working on it, even where we are unable to change the environment."

These executives recognize corruption as a major risk and develop specific strategies and mechanisms to mitigate it. The four positions articulated above can be organized into a matrix demonstrating that majority of executives are not prepared for a full-scale fight against corruption (percentage estimated by the interviewers). A range of psychological and technical factors prevent them from taking up the anti-corruption challenge.

Table 4: Executives' attitudes to corruption

	Passive attitude	**Active attitude**
Acceptance of corruption as a real risk to business	*Tolerate* (60%)	*Manage* (15%)

Non-acceptance of corruption as a real risk to business	*Refrain* (15%)	*Exploit* (10%)

Failure to recognize (often at a subconscious level) corruption as a threat to their business or rationalization of personal inability to deal with it effectively relieves executives of an additional responsibility to manage corruption at their level (Anand, Ashforth, and Joshi, 2005; Fleming, Zyglidopoulos, 2009). Limited usefulness of top-down, government-driven approaches to corruption management, as well as a lack of knowledge of alternative firm-specific methods reduces executives' capacity to do so effectively. Corporations tend to blame corruption in the public sector and hide the fact of internal corruption from public view, while the most important aspect of corruption – the interaction between the state and the firm – remains without scrutiny.

To overcome this situation, corporate executives have to adopt what we call 'reflective leadership'. Reflective leaders see corporate responsibility as inclusive of the courage to confront external corruption proactively and of the will to enforce anti-corruption instruments to deal with the firm's internal corruption. As we have shown in this section, this is a particularly challenging task in emerging markets, which are often ridden with endemic corruption.

III Managing corruption: reflective leadership and bottom-up approach

There are two distinct theoretical approaches to corruption management at the firm level. The first, the so-called 'top-down,' prescriptive approach is advocated by international organizations such as the UN and the OECD and supported by most national government-signatories to the Anti-Corruption and Anti-Bribery Conventions.[10] NGOs (non-governmental organizations) such as Transparency International, also call upon firms to fight against bribery, and promote business principles for countering bribery and codes of corporate conduct. These international organizations supply management policies and toolkits, information sessions, internal audits and guidelines, irrespective of the specific characteristics of the firm or the context in which it operates.[11]

The second approach is firm-centered and grounded in management and other social theories that focus on corruption mitigation within a complex social context, inclusive of such contingencies as the individual, the organization, or its business environment, as well as social and cultural contexts (Fleming & Zyglidopoulos, 2009). Having reviewed the management literature on government corruption, Galang argues that a firm's behavior in a corrupt environment is determined by two factors: the firm's political resources and the dependence of the industry in which the firm operates on government regulations. Factors such as a country's institutional development, and the corporate culture and structure of the firm also play a part (Galang, 2012). He identifies four distinct strategic approaches to government corruption:

Alter strategy (high regulatory dependence-high level of political resource) leads to engagement with the government, institutional change and regulatory capture, and benefits both the firm and the economy.

Avoid strategy (low regulatory dependence-high level of political resource) leads to self-restraint, non-investment and formation of business groups, and benefits the firm.

Ally strategy (high regulatory dependence-low level of political resource) leads to networking and forming joint ventures; it benefits both the firm and the economy.

Accede strategy (low regulatory dependence-low level of political resource) leads to acceptance of the rules of the game proposed by government officials and bribing, and benefits both the firm.

Other theoretical attempts to organize existing internal corruption mitigation mechanisms include Lange's four types (functions) of corruption controls by organizations: 1) autonomy

[10] See the leading national legislations such as US Foreign Corrupt Practices Act (the FCPA) (1977), UK Anti-corruption Act (2010) and the UN and OECD conventions: United Nations Convention against Corruption, www.unodc.org/unodc/en/treaties/CAC/ and OECD Anti-Bribery Convention http://www.oecd.org/department/0,3355,en_2649_34859_1_1_1_1_1,00.html

[11] http://www.transparency.org/whatwedo/tools/business_principles_for_countering_bribery

reduction (AR); 2) consequence systems (CS) ensuring reward and punishment); 3) environmental sanctioning, "in which an organization interprets and transmits to the member external pressures for legal/regulatory compliance and social conformity" (ES); 4) "intrinsically oriented controls, in which organization fosters and facilitates the member's own inclination to reject corruption behavior" (IC) (Lange, 2008). Most scholars agree that rationalization at the individual and organizational levels are important obstacles to effective prevention of corruption. They call for the instigation of organizational mechanisms and values which prompt corruption to be recognized as a 'form of unaccepted deviance' (Fleming & Zyglidopoulos, 2009), which could be achieved through training and discussions (Anand, Ashforth, and Joshi, 2005) or by better controls and oversight, including ethical screening at entry, and job security measures that would reduce pressures on employees (Albrecht, Albrecht, and Albrecht 2004).

While the top-down, prescriptive approaches to corruption management has failed to produce significant results despite two decades of high-profile international and national anti-corruption campaigns, most theoretical models have not been empirically tested. We see the way forward in developing contingency-based models and integrating data on specific practices and strategies to mitigate them. The combination of the top-down with bottom-up approaches of the existing theoretical frameworks on corruption mitigation and effective leadership with hands-on analysis and training brings corporate leaders to the forefront in the fight against corruption.

IV Strategic approach to corruption management

Setting specific goals and identifying target groups

Our study provided some insights into how executives who subscribe to the idea of corruption management employ mitigation strategies and choose instruments to achieve their goals effectively. There are at least two distinct approaches to agenda-setting. The first can be seen as universalistic and is associated with the top-down introduction of best practice world-wide. Codes of practice and ethical guidelines are the most common in this respect and are implemented irrespective of companies' specific corruption risks. The actions of executives are often driven by changes in national legislation, policies advocated by international organizations and national governments, corporate benchmarking, pressure from headquarters etc. One participant at an executive workshop explained: "We went to a training session organized by our British shareholder and heard about some interesting anti-corruption instruments such as… We became quite excited and implemented them back home, only to realize that that they neither fit our context, nor produced any impact." Examples of such policies included ethical declarations and incentives for whistleblowing.

The second represents a bottom-up approach for tackling the specific corruption risks associated with informal practices, when these are widespread in the company, and thus with a concrete set of objectives in mind. One of the interviewed CEOs framed it as follows: "We spend hundreds of millions on IT and I know that we suffer from kickbacks received by our purchasing managers from vendors. I want to fight this and I set three goals for this year: to reduce our IT-related cost by 10 percent next year, to review the list of IT vendors, and to get rid of companies affiliated with our managers in some way, as well as to uncover a few cases of kickbacks and make them public." A combination of both top-down and bottom-up approaches would constitute best practice. However, we found that in the majority of cases executives do not even try (or really struggle) to identify a shortlist of damaging practices. We propose a simple yet comprehensive five-step approach to identifying targets of anticorruption strategies.

First, a long list is developed through in-depth interviews with executives and the content analysis of business publications in the national and regional media. It is essential to keep the original formulation of practices while verifying the list against existing classifications (see, for example, Transparency International typology of corruption (Transparency International UK, 2011).

Second, experts with deep company knowledge (senior executives and business unit managers) should be invited to add to the list of practices, especially where these are specific for the company. It is practical to keep the list manageable so that it can be converted into a simple-to-answer questionnaire. Any omission may mean a failure to identify some most widespread and taken for granted practices.

Third, once the final list is determined, company employees are asked to assess whether, in their experience, these practices occur ‘systematically,’ ‘occasionally’ or ‘never.’ Anonimity of respondents must be assured. A large random sample of firms’ employees at all levels of the hierarchy is recommended. From the respondents’ point of view, it is best if the questionnaire is administered on-line or by an outside consultant who does not report directly to the firm management. The survey will produce a list of the informal practices most frequently recognised and acknowledged by company employees, which will form a foundation for the development of specific anti-corruption strategies.

Fourth, each practice identified as significant in the survey should be analyzed further with the purpose of establishing who initiates it (initiator), who gains from it (beneficiary), and who bears the costs (cost-bearer) associated with it. Such analysis allows managers to reflect on sometimes unexpected findings and to prioritise concerns.

Fifth, the CEO and senior corporate leaders should select a limited number of specific practices they want to target, identify specific goals they want to achieve with regard to each of them, and select monitoring instruments. The choice of appropriate execution strategies will be discussed in the next section. The proposed instrument allows executives to deal with specific corruption risks rather than ‘corruption in general’, to direct limited resources to important targets, to communicate the anti-corruption strategy effectively, and to monitor the change.

The suggested methodology is not without limitations. It is subject to bias, especially when the questionnaire design is dominated exclusively by senior executives of the organization with extensive but one-sided knowledge of their organization. The number of questions in the survey should remain manageable, which implies limited contexualisation. Respondents are asked to assess frequency of their experience of informal practices, but where they are not directly involved with the practice they will inevitably report their ‘perceptions’. A ‘perception’ bias in corruption studies – personal experience of involvement in corrupt practice is reported by far fewer respondents than those reporting the omnipresence of corruption in general – is normal. In the case of in-house corporate corruption, such bias could be ‘corrected’ by the tendency of respondents to save the ‘corporate face’ of their firm. Overall, our study showed that the ‘recognition effect’ of informal practices (when things are named in a familiar way), the contexualised design of the questionnaire, large size and diversity of the sample, as well as the genuine willingness of senior executives to target corruption on the firm level, ensured the validity and reliability fo the data.

Types of corruption management strategies at the firm level

Our research into the specific approaches to corruption mitigation adopted by companies operating in Russia confirmed the relevance of Lange’s model of organizational controls – executives who subscribe to the *management of* corruption adopt two distinct types of strategies when dealing with it – control and prevention – and use two distinct transmitting channels for their actions – organizational hierarchies and personal networks.

In the *control mode*, managers deal with informal practices reactively, after these practices have taken place and have damaged the business. For example, the CEO of an oil company publicly fired a successful regional manager for selling gasoline to an informally affiliated company at a lower price. In the *prevention mode*, executives deal with risks which might hurt the business if they occur in the future, and proactively look out for practices that may be indicative of those risks. For example, the CEO of a mining company issued an executive order prohibiting sales managers from sponsoring foreign trips for government officials.

Hierarchical or formal strategies imply the use of such institutional instruments as executive orders and procedures, codes of conducts, incentive systems, etc. Network-based or informal tools are ‘unwritten’ and are spread through unofficial channels, such as personal networks, informal agendas, informal signals, informal incentives, etc. (Ledeneva, 2013).

Our interviewees point out that in addition to formal policies, it is crucial to communicate informally the degree of commitment of the leadership. Informal incentives and signals can be very effective in mitigating corruption risks and preventing specific informal practices. One CEO gave us an example of an informal back-up of formally announced policies. He set an example for his regional directors and declared a personal commitment to fight conflict of interest among managers working with informally affiliated vendors and suppliers. Through his informal channels and networks, he sent a strong signal that he would not tolerate any divergence from the new 'party line,' no matter how close his relationships with a particular manager had been in the past. In his view, that informal warning had a stronger educational impact than all formal policies and procedures developed to tackle the issue. The combination of two modes and two types of transmitting channels discussed above creates four ideal types of corruption management at the firm level, as presented in Table 5.

Table 5: Types of corruption management at the firm level

	Control	**Prevention**
Formal channels (hierarchical, official, written, codified)	Reactive management through formal channels (1)	Proactive management through formal channels (3)
Informal (network-based, unofficial, unwritten, non-codified)	Reactive management through informal channels (2)	Proactive management through informal channels (4)

The four types are ideal types. Thus, in the example above, the CEO has applied a proactive management through informal channels, yet he has also targeted widespread practices of conflict of interest, and therefore his actions may have been reactive. Below we illustrate the ideal types with examples.

(1) Reactive-formal. An internal audit investigation of assets' acquisition in a new region resulted in identifying a conflict of interest of the responsible manager. The CEO fired him for abuse of corporate office.

(2) Reactive-informal. With the help of the founder-CEO's network, a bank employee caught stealing USD200K from a bank client was not only sacked, but unusually a criminal case was opened. Moreover, the owner of the bank pulled strings for the highest sentence (five year imprisonment) to be handed down to the employee. Reactive in one case, the sentence became a powerful deterrent for other employees.

(3) Proactive-formal. Rotating membership in a tender committee every two years as a matter of policy prevents long-term informal affiliations of its members, bias in decisions, and inflated contracts for affiliated vendor and suppliers of large oil and gas companies.

(4) Proactive-informal. Before introducing a new policy with regard to purchasing managers' expenses, a Russian energy company CEO attended a number of meetings with them and discussed the proposed policy off the record. These meetings allowed the managers to share concerns, raise important questions, created awareness and gave them a chance to adjust their routines in advance of the publication of the formal policy.

None of the described types of strategies is superior in delivering effective management of corruption. The choice is dependent on such contingencies as the nature and prioritization of specific corruption risk, the initiators, beneficiaries and cost bearers, the resources available to the CEO, and the corporate culture of the firm. CEOs of companies operating in endemically corrupt environment need to master all four types and to develop the largest possible arsenal of anti-corruption strategies.

The case of one leading Russian energy company demonstrates how it can be done. In 2010, the CEO's team initiated a thorough investigation of corruption risks in the company and identified two targets: vendors' kickbacks and managers' conflict of interest. We describe how they approached the mitigation of the latter. Corporate leaders set a clear target – to fully eradicate cases of undeclared and unauthorized conflict of interest in relation to vendors' contracts in excess of US USD20 million and to reduce total corporate purchasing costs by 15% in three years. They identified the initiators (owners and managers of suppliers related to corporate executives and corporate executives themselves), the beneficiaries (corporate executives and related parties, owners of vendor companies) and the cost bearers (five individuals, including the CEO, who owned the company). After that the CEO and his team outlined a set of specific strategies with regard to each identified stakeholder group, as presented below.

Table 6: Corruption mitigation strategies

Stakeholders	Control/Informal	Control/Formal	Prevention/Informal	Prevention/Formal
Owners and CEOs of vendors	Collecting and cross-checking information about vendors/executives relations through informal networks	Pulling out of contracts with vendors affiliated with corporate executives Instructing internal audit and internal security to conduct investigations of potential cases of conflict of interest	CEO conducting informal meetings with suppliers to communicate new policy and advise them not to have the company's executives as shareholders or beneficiaries of their businesses	Updating vendors' management rules Communicating new procedures of procurement at vendors' conference. Establishing conflict commissions for suppliers' complaints;
Corporate executives with conflict of interest	Sending informal signals to specific executives to fix their conflict of interest or to be publicly ostracized	Amnesty (3 months) for all reported cases of conflict of interests Firing people with conflict of interest after 3 months Opening criminal cases against some executives	Sending a strong signal through the company grape vine about seriousness of the new strategy	Replacing committee principle with personal general manager's responsibility for procurement

After three years of these anti-corruption initiatives, some tangible results were reported: the cost of purchasing decreased by 15%, more than 20 companies were excluded from the suppliers' list, 27 managers lost their jobs, and five received jail terms.

V Conclusion

In conclusion, let's return to what we consider an effective approach to managing corruption in endemically corrupt environments such as in Russia. Action points for CEOs and other senior business leaders can be summed up as follows:

- Make corruption management one of the CEO's top priorities, overcome blind spots and misrecognition with regard to corruption risks. Channel the priority status of the anti-corruption management through both the organizational hierarchy and informal networks.
- Use a bottom-up, ethnographic approach to identify specific practices that are particularly problematic. Spend time and other resources investigating which specific informal practices inflict most systematic damage on the corporation.
- 'Slice' the corruption 'elephant' into smaller pieces that can be tackled in endemically corrupt environments. Target those specific practices, not corruption in general.
- Combine formal tools and informal influence. Effective anti-corruption strategies are based both on formal tools (such as hotlines, codes of conduct, open tender competition, standard policies and procedures) and informal influence (role modeling, peer pressure and other instruments of informal governance).
- Provide training to give people skills to identify, articulate, measure and manage (IAMM) corrupt practices. Most CEOs mitigating the risks of business corruption in Russian companies agree that making key employees at every level of the organization active participants in the anti-corruption strategy is critical for its success. Conducting detailed surveys on informal practices and providing a platform for discussion of the corruption elephant-in-the-room is an important addition to anti-corruption legal training and integrity education. A leader's will to control risks associated with corruption, to go beyond general

programs of anti-corruption awareness, and to offer IAMM skills to tackle corrupt practices, can and does work in endemically corrupt environments.

We recognize limitations of the bottom-up strategic approach and IAMM framework developed in this paper. In endemically corrupt environments businesses face situations when well-identified and articulated risks cannot be effectively mitigated. However, there is a fundamental difference between such circumstances and uncritical acceptance of corrupt environment. Reflective leaders understand it and deploy strategies to minimize negative impact of corrupt actions on their organizations.

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Europe Campus
Boulevard de Constance
77305 Fontainebleau Cedex, France
Tel: +33 (0)1 60 72 40 00
Fax: +33 (0)1 60 74 55 00/01

Asia Campus
1 Ayer Rajah Avenue, Singapore 138676
Tel: +65 67 99 53 88
Fax: +65 67 99 53 99

Abu Dhabi Campus
Muroor Road - Street No 4
P.O. Box 48049
Abu Dhabi, United Arab Emirates
Tel: +971 2 651 5200
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