Managing Informal Business Practices in Russia: The Experience of Foreign Companies

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This article discusses how foreign companies deal with informal practices while operating in Russia. Informal practices encompass all activities which take place outside of formal structures and/or complement them. Such activities constitute one of the main challenges for foreign companies doing business in the Russian environment. To demonstrate the phenomenon of informality from a foreign company’s point of view, we conducted 42 in-depth interviews with German and Russian managers and CEOs. These interviews revealed the typical informal practices which occur in companies’ internal affairs, in relations with external partners and suppliers, and in dealing with authorities. Through an analysis of real-life examples, we show not only what kinds of informal practices foreign companies might be faced with, but also what strategies they can use to manage this informality. We conclude that leadership by example, judicial independence, effective control, transparency, outsourcing, a strong corporate culture, and a leveraging of the cultural context are the main strategies for foreign enterprises to mitigate informality in the Russian business environment.

Keywords: cross-cultural management, informal practices, corruption, foreign companies

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2 The views expressed in this article are Dr. Kryzhko’s own and do not represent those of her employer.
Introduction

Foreign companies doing business in Russia are not currently enjoying a positive experience. The weak domestic currency, international sanctions, the conflict in Ukraine and other factors are forcing some companies to reconsider or even shut down their activities in the country. Nevertheless, many companies still view Russia as an attractive market with many promising opportunities mid- and long-term. Besides political instability, however, one of the main challenges to doing business in Russia remains the high level of informality, which is sometimes judged as corruption from a Western point of view. This in turn can have negative consequences for foreign companies, both in their headquarters as well as on stock exchanges. In our paper, we provide an indigenous examination of the business environment in Russia and offer a new reading of some common business practices in the country.

State of Research

The term ‘informal economy’ (also referred to as the shadow, unofficial, or black economy) encompasses all economic activities which take place outside of formal structures. Informal activities are not illegal per se. Since they are under-regulated and usually hidden, they might be perceived as illegal, or at least questionable, especially by outsiders [Barsukova 2004]. McGahan [McGahan 2012] argues that ‘many studies of formal activity are incomplete without considering the informal activity’ and points out the necessity and the urgency of such research. Bruton, Ireland, and Ketchen [Bruton, Ireland, Ketchen 2012] decry the lack of scholars with an ‘intimate knowledge’ of ‘important insights into the actual setting’. We address these gaps in management research on informality in Russia and offer our knowledge and insights on the scope, context and roots of informal practices in doing business there, as well as on how to manage them.

The informal economy has a very long history in Russia. The feeding system (sistema kormlenii)—the system of non-monetary and monetary payments to state officials made by citizens, which dates as far back as the late ninth century in the Kievan Rus—might be defined today as non-monetary and monetary corruption, according to Transparency International. The criminal law of the Russian Empire in the seventeenth century in fact differentiated between bribes to officials for performing legal actions (mzdoimstvo) and bribes to officials for performing illegal actions (lichoimstvo), and legitimized the first type (mzdoimstvo) as such. In the Soviet era, the informal economy was even more efficient than the formal economy, but was based partly on state financial and material resources [Apressyan 1997]. These partly legitimized bribes and efficient businesses were at the expense of the state can still be found in post-Soviet Russian entrepreneurship, including in barter [Woodruff 1999; Ledeneva 2000, Gaddy, Ickes 2002], family exchange, credits [Gradosel’skaya 1999; Radaev 2002; Steinberg 2009; Barsukova 2005], organized crime [Bäckmann 1998; Frisby 1998; Pleines (1) 2001; Holmes 2008; Cheloukhine, Haberfeld 2011], dependence on the state [Frye 2002; Yakovlev 2006; Denisova, Eller, Frye, Zhuravskaya 2009; Olimpiova 2010; Sakwa 2011], and other activities [Shmulyar-Green 2009; Fey, Shekshnia 2011; Hendley 1998;
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Hendley, Murell, Rytermann 2000; Johnson, Kaufmann, McMillan, Woodruff 2000; Pleines (1) 2000; Pleines (2) 2000; Pleines (2) 2001; Ledeneva 2006; Ledeneva 2013; Shekshnia, Ledeneva, Denisova-Schmidt 2013; Shekshnia, Ledeneva, Denisova-Schmidt 2014. Thus, corruption in Russia should be considered in its historical and cultural perspective [Barsukova, Ledeneva 2014].

How does this affect the business activities of foreign companies operating in Russia? How should foreign companies handle these issues and manage the balance between western standards and the rules of the game in the Russian market? By breaking their western norms, these companies might face consequences in their markets in other countries, in their interactions with international organizations and on stock exchanges. By rejecting the Russian way of doing business, they might lose their market there, along with any benefits from their expansion into the country. Where is the border between informality and corruption3?

These questions are relevant for both practitioners doing business in Russia and scholars of Russian and international management studies. Our paper sheds light on what kinds of informal practices foreign companies might encounter while doing business in Russia and what strategies they use to manage the informality. Our findings have implications for both the business community and future avenues of research. In-depth empirical insights on corruption and informal practices from the point of view of foreign companies and local managers and employees enrich the theoretical discussion on informality and corruption in its historical and cultural context. Similarly, the practical examples from our numerous interviews may be useful to practitioners who are already engaged in business relationships with Russian partners or who are thinking of entering the Russian market.

Foreign Companies in Russia

The interest of foreign companies in the Russian economy is reflected in the large amount of foreign direct investments (FDI) that flowed into the country over the last decade. Figure 1 shows that annual flow of inward FDI grew almost 30 fold within eight years, starting at the level of US$2.7 billion in 2000 and reaching US$74.8 billion in 2008. Even though the 2008–2009 economic crisis led to a 50% drop in FDI flows in 2009, the positive trend continued in 2010 and reached a new peak of US$79.3 billion in 2013. In 2014, UNICTAD [UNICTAD (2) 2015] estimates a 70% drop in the FDI flows to the Russian Federation, down to an estimated level of US$19 billion. This drop was caused by the country’s negative economic prospects and the exceptional in 2013 peak due to the US$55 billion Rosneft-BP transaction4.

The FDI segment suffered the most from the sanctions imposed over the tension between Russia and Ukraine, which resulted in capital withdrawals and an overall economic downturn [Losev 2015]. If in the first two quarters of 2014, FDI flows

3 We use the Transparency International definition of corruption: ‘the abuse of entrusted power for private gain’.

4 In 2013, Rosneft took over TNK-BP, agreeing to pay US$55 billion for the transaction (FDI outflow). In this transaction, BP received US$16.7 billion in cash and 12.5% of Rosneft’s shares. In return, Rosneft became a 50% stakeholder in the TNK-BP venture. The deal made Rosneft by far the world’s largest publicly traded company and strengthened Russia’s position in the international energy sector.
were still positive, and amounted to $24.8 billion, in the third quarter, economists observed negative net FDI flows of US$1.1 billion [Central Bank of Russia]. However, Russian experts remain optimistic regarding the country’s future economic prospects. The Russian edition of Forbes compares the current sanctions against the Russian Federation to those faced by South Africa over their apartheid laws, and are far softer than those levelled against Cuba, Iran or Iraq. Indeed, the recent sanctions hit mainly oil and gas sector. Other multinationals seem to be less worried: ‘If you’re running a big multinational, can get credit from any bank in the world, and [if you] aren’t investing in oil and gas exploration, then the Russian sanctions are just a headline’5 [Rapoza 2014]. Indeed, the majority of multinationals are not directly impacted by the sanctions. Their operations are rarely related to technology transfers for fracking or cooperation in oil and gas exploration and production and they have easy access to financing on European and US financial markets. Foreign companies operating in Russia are surely impacted by the Russian economic downturn and the decrease in purchasing power, but only a few have decided to cease their operations in Russia. Most foreign enterprises are instead adopting a wait-and-see attitude, while reducing their current investments and waiting for another growth loop. Moreover, according to the study by A. T. Kearney, the respondents representing the healthcare and pharmaceutical industry (65%), textile industry (61%) and financial services sector (58%) have indicated high interest in increasing their investments in Russia should the situation improve6.

![Figure 1. Inward FDIs flows to the Russian Federation, 2000–2014, in US$ million](source: [UNCTAD (1) 2015].)

5 http://www.forbes.com/sites/kenrapoza/2014/10/02/in-russia-not-all-foreign-companies-worried/
6 http://www.vestifinance.ru/articles/53589/print
The largest share of FDI into the Russian Federation originates in Western Europe. In 2012, Luxemburg, the Netherlands and Ireland were responsible for a total of 61% of the FDI flows into the Russian Federation. Similarly, the United Kingdom, Luxemburg and Ireland accounted for 58% of all inward FDI flows in 2013. The large share of these four countries in the overall FDI flows can be explained by the attractive tax policies in these countries and the wish of multinationals to optimize their tax planning while investing via holdings hosted in those countries.

Besides direct investments into the Russian economy, foreign companies consider Russia as an important trading partner. Figure 2 shows that Russian exports quintupled between 2000 and 2011, reaching $515 billion in 2011. Similarly, the value of imports grew from $45 billion in 2000 to its peak of $341 billion in 2013. Like the development of inward FDI flows in Figure 1, exports and imports show a strong decrease in 2009, caused by the economic crisis, and a slight decline in 2014 due to the Ukrainian crisis.

The most important trading partners of the Russian Federation are China and Germany, which accounted for 16.7% and 11.9% of all Russian imports, respectively, in 2013. In the commodity structure of Russian imports, machines, equipment and means of transport accounted for almost half of all the country’s imports in 2013.

Figure 2. Exports and imports of goods and services of the Russian Federation, in USS billion, 2000–2014
Source: Central Bank of Russia (2014)

In terms of the ease of doing business, the World Bank ranks Russia number 62 out of 189 countries in its Doing Business 2015 report [World Bank Group (1) 2015]. This report provides objective measures of the complexity and cost of a country’s regulatory processes and the strength of its legal institutions in 11 areas of business regulations: starting a business, dealing with construction permits, getting electricity, registering property, paying taxes, trading across borders, getting credit, protecting minority rights, enforcing contracts, resolving insolvency, and protecting investors.

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7 This might also represent a reinvestment, which is not a part of the current study, however.
investors, enforcing contracts, resolving insolvency, and labour market regulation. In the 2015 ranking, Russia had very good scores in the areas of enforcing contracts (14) and registering property (12), followed by starting a business (34) and paying taxes (49). The worst scores are in the area of dealing with construction permits (156), trading across borders (155) and getting electricity (143). For example, dealing with construction permits for an exemplary warehouse requires 20 procedures, takes almost eight months and costs almost 2% of a warehouse’s value [World Bank Group (2) 2015; World Bank Group (3) 2015].

When compared to the Doing Business 2014 report, Russia has improved its scores on three dimensions: starting a business (58 to 34), dealing with construction permits (172 to 156) and registering property (17 to 12). The main regulatory improvements are the elimination of the requirements to deposit the charter capital before registering a company, the requirement to notify tax authorities on the opening of a bank account, the elimination of several regulatory requirements for project approval, a reduction of the time necessary to register a building, the elimination of a requirement for notarization, and introducing tighter time limits for completing property registration [World Bank Group (2) 2015; World Bank Group (3) 2015].

While trying to understand Russian business culture and local practices, it is important to step back from the clichés and stereotypes and consider the situation in its context. Such an approach is necessary in order to be able to account for ambivalences: when the same phenomena may have different meanings and require different explanations depending on the context [Ledeneva (1) 2014; Ledeneva (2) 2014].

Empirical Study

Our data set is based on 42 expert interviews conducted in 2012–2013. The first set was collected between March and July, 2012, when 12 CEOs and owners of Russian enterprises were interviewed about informal practices and how to manage them. The second set was conducted between November 2012 and April 2013. For this set, 30 German and Russian employees working for Russian subsidiaries of large German industrial enterprises were interviewed about cross-cultural differences [Kryzhko 2015]. Additionally, field notes from both studies were considered as a complementary data source.

In both studies, we applied semi-structured, open-ended in-depth interviews to explore in detail the phenomena under investigation [Punch 2005; Kruse 2014]. Furthermore, we relied on problem-centred and critical incident techniques, as they extract ‘rich’ information on the relevant social issues [Flick 2009].

In the first empirical study, respondents were approached using personal connections and the snowball technique. In the second empirical study, three sampling methods were applied successively: a comparable case selection to identify a target group; a self-
selection sampling strategy, in which the members of the target group could choose to participate in the study; and snowball or chain strategy to identify further cases [Flick 2009; Miles & Huberman 1994; Sounders et al. 2009]. The interviews were conducted in person, recorded and transcribed.

The data analysis procedure for both data sets relied on the analytical framework developed by Miles and Huberman [1994]. According to this method the data were first reduced by coding, writing summaries and memos, and identifying themes. Then, the data were displayed in a structured manner to identify patterns. Finally, the conclusions were drawn and the results were verified by cross-checking the findings with the information gathered during the fieldwork.

**Empirical Results**

The remainder of this paper represents some of the results of our empirical studies; it is structured according to three major themes identified in course of the data analysis:

- informality in company internal affairs;
- informality in relations with external partners and suppliers;
- informality in dealing with authorities.

Each theme is presented using several examples of the practices, and discusses potential mitigation strategies and instruments.

**Informality in company internal affairs**

**Non-monetary benefits**

Russian companies might often organize corporate events for their employees as well as for suppliers and business partners. These events are celebrated extensively: they can involve a dinner in a luxury restaurant with a show program or an all-day off-site event with various activities and all-inclusive catering. Often, the family members of the employees are also invited to such events. One German expatriate, a senior manager working for a large German enterprise in the chemical industry, who participated in such an event for the first time as a supplier representative, was shocked by the extent of the celebration: ‘Such an event is a pure waste of money. Moreover, it would never pass the internal compliance regulations of our company10! I wonder how it complies with the country’s internal regulations!?’

While such corporate events might be considered corruption in the Western European business environment—especially if external parties such as suppliers or authorities11 are involved—in Russia, corporate events are a means to recognize good performance in the past and to inspire fruitful cooperation in the future. In the case of internal corporate

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10 Many Western European companies have internal regulations that stipulate the limits for internal company events. For example, the company that this manager represents limits its expenditures for company events to 70 EUR per person per 6 months.

11 Hospitality and gifts are forms of corruption if ‘They could affect or be perceived to affect the outcome of business transactions and are not reasonable and bona fide’ [Corruption in the UK. Overview and Policy Recommendations, 2011, p. 7].
events, a company is offering a non-monetary benefit to their employees as part of a remuneration system and aims to increase the loyalty of its employees, whereas the employees have an opportunity to enjoy a well-organized event with their families—something that may not always be available to Russian families due to budget restrictions.

Another German expatriate reported on the way he learned about the importance of non-monetary benefits in Russia: ‘We rented a suite in a hotel to prepare for an important meeting. We used it as a meeting room, and of course, during the night the room was available. And then [after some time], my employees told me that they wished to stay in the hotel room for the night. […] I had not even thought about it. […] Indeed, it would have been a perfect recognition of their contribution’.

As with the example of corporate events, this example shows that non-monetary benefits are an important practice in the Russian business environment, in order to motivate employees and recognize their performance. Russian employees often cannot afford a suite room in an international hotel. Therefore, an offer from the company to stay in the suite for free is considered an additional benefit or recognition of performance. In Western Europe, such a practice would be considered monetary profit for the employees and would be taxed accordingly, otherwise, it may be considered a case of corruption12.

Private matters during working hours

Russian employees sometimes use their working time to settle private matters. They might stay a bit longer in the office and go shopping during working hours—or take a day off. One German manager, assigned to a Russian subsidiary, reported on the following situation: ‘One of my employees had to participate in a seminar abroad. The seminar lasted four days, from Tuesday to Friday. She asked me if she could travel on Saturday. I allowed it. But she did not tell me that the seminar started on Tuesday and she wanted to take a day of vacation. It would even have been possible to cover this day with her overtime hours. But she did not mention anything […] She used to be a reliable employee and has always delivered before her deadlines. However, we had to let this employee go because of this incident’. In fact, the employee wanted to take Monday in compensation of her overtime hours but she did not consider it necessary to mention it explicitly. Nor did she mention every time when she needed to stay extra hours in the office. Many Russian employees consider it an unspoken agreement to use work time for private matters and, in turn, to stay in the office a bit longer, if necessary.

Employing relatives

It might happen in the Russian business environment that relatives work for the same enterprise, and even in the same or in related departments. One German manager, working for a Russian subsidiary in Moscow, recalled the following incident: ‘One of my [Russian] colleagues hired a new employee [a graduate without any working experience].

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12 Fraud—‘The act of intentionally deceiving someone in order to gain an unfair or illegal advantage (financial, political or otherwise)’ [Corruption in the UK. Overview and Policy Recommendations, 2011, p. 7].
This employee was unusually quickly promoted. There were also some rumours that the new employee was a relative of my colleague. I asked for an explanation and it turned out that he was her son-in-law. According to Russian law, he is not a family member; therefore she did not break any law while employing him. In this example, a mother-in-law offered a favour to her family member helping him to find a job. In general, it is quite difficult for recent graduates to find their first job; therefore, they are often dependent on the help of their relatives and friends. Parents often try to help their grown children to find employment in the company they work for.

By employing relatives and friends, the companies may be driven by a willingness to help as well as by the desire for additional benefit. Companies can be sure about the loyalty of those employees and might even use their contacts to the company’s advantage. Sometimes the business might run less efficiently without such personal contacts. In Russia and in many other post-Soviet countries, there are a lot of monotowns. Most of the employees in these towns went to school together, and studied together at university. Many of them might be relatives. These relations certainly influence recruitment, selection and promotion. This is a socially accepted and welcomed norm in this particular context, but it could also be called nepotism and favouritism by Transparency International.

**Strategies to mitigate informal practices in a company’s internal affairs**

How do German expatriate managers react to the situations described above? The majority of respondents reported that they feel obliged to take countermeasures. All in all, the respondents mentioned four types of measures they take in order to avoid or to minimize the impact of informal practices on the Russian subsidiaries of large German enterprises: a strong corporate culture, leadership by example, effective control, and consideration of cultural context. All the German enterprises have established in their Russian subsidiaries internationally valid corporate cultures that regulate ‘appropriate’ and compliant behaviour. The dissemination of the corporate culture is ensured by regular training, communication programs, and posters in the offices. Additionally, leading management positions at Russian subsidiaries are usually occupied by expatriates who have long-term experience working in the company’s headquarters. The expatriates not only ensure the propagation of corporate standards but are also role models for their Russian colleagues: They show an example of ‘positive’ and compliant behaviour. Additionally, the majority of international enterprises have introduced instruments of internal control, such as compliance offices, hotlines, and internal audit departments. Such tools ensure, for example, that job-related actions and expenses follow the company’s internal policies and the country’s laws. Finally, the majority of respondents reported that it is important to consider the cultural context. Though the corporate regulations and external laws are considered non-negotiable, the German managers try to find tools and mechanisms to fit into the cultural context. For example, in the case of the non-monetary benefits, the companies adapt their salary structure to include health and social insurance, child care, bonuses, and miles programs. Furthermore, a knowledge of the cultural context helps German managers to better understand the behaviour of Russian employees and to adopt the appropriate countermeasures.

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13 A monotown is a town with just one large enterprise, and the majority of the population work for this company (for example, AVTOVAZ in Togliatti or BasCement-Pikalevo in Pikalevo).
Informality in relations with external partners and suppliers

Blank invoices

Often, taxi drivers will offer blank invoices to their passengers if they are asked for a bill. They ask if the passenger would like to fill out the invoice themselves. Sometimes they even offer several blank invoices in case the passenger might make a mistake while filling them in. Thus, the passenger receives an opportunity to gain some additional compensation for travel expenses.

A taxi driver would also offer a business card with his or her mobile phone number and invite the passengers to call whenever needed. If the passenger should call the mobile phone number directly, the taxi driver would not report the trip to the taxi company, instead keeping the whole price as revenue. Usually, taxi drivers have their own taxi driver licenses and pay a percentage of their fares to the taxi company as a ‘fee’ for finding passengers. If the passenger calls the taxi driver directly, the taxi driver does not feel obliged to pay a ‘fee’ to the taxi company as they found the passenger for this particular trip themselves.

Dinner at the hotel as part of the room fee

Hotels might also offer travellers some wiggle room. One respondent recalled an incident that happened to her in a small hotel in a town in Chelyabinskaya oblast: ‘I arrived in the hotel not too late in the evening and asked the receptionist for the opportunities to have a dinner in the area. To my question, she answered that I could have dinner at the hotel restaurant. She also mentioned that for the hotel guests, they include the bill for the dinner into the fee for the room. Alternatively she could not offer any restaurant in the neighbourhood’. The respondent decided to stay in the hotel and have a dinner at the hotel restaurant. The dinner was of a good quality and a reasonable price—nothing seemed to be suspicious. However, the fact that the hotel included the restaurant’s bill into the fee for the room, without showing the dinner explicitly in the invoice, put the respondent into an uncomfortable situation: on the one hand, she had a good dinner for a fair price; on the other hand, the dinner is paid by the company, while she has a full daily allowance for the evening. The hotel owner offered good quality services and got paid for it in a fair manner. The incentive in the form of a single bill for the room was only used to attract customers to the hotel restaurant.

Such practices are more common in small cities and small hotels. Larger hotels prefer to have more transparency regarding the itemisation of their bills.

Friends and families as suppliers and business partners

Russian businesspeople prefer to work with proven suppliers and business partners. A German manager working for the Russian subsidiary of a Western European
pharmaceutical company reflected on his observations: ‘My Russian employees tend to do business with their friends or people they know very well. [...] They do not know what a conflict of interest means’. If I prepare a tender and if one of my friends is involved in the tender, I need to make it transparent to the company. I also need to take care that my decision is not influenced by my friendship, but is purely rational. But it would never work here [in Russia]. [...] Even if the offer from a friend is not very good, a Russian employee would let a friend [get the tender].

It is common in Russia to grant tenders or sign partnership contracts with friends or with the companies where friends are employed. Both parties benefit from such cooperation: The ordering party can rely on the supplier since it is already a known and trustworthy one, whereas a supplier gets a contract.

Another German respondent, a CEO of the company’s office in Moscow, recalled the following situation: ‘We have a Joint Venture partner in a region, 2000 km from Moscow. And this partner does business on the side, i.e. he brings his own companies into the joint venture business—companies you would not necessary choose. He uses his network to derive even more benefit for himself. And I have noticed that it happens more often among the generation over 45–50 years old. They try to get more and more…’

**Strategies to mitigate informal practices in relations with external partners and suppliers**

Though informal practices in relations with external partners and suppliers are more difficult to detect than informal practices in the company’s internal affairs, German managers do not leave them unaddressed. For this purpose, the aforementioned countermeasures are also valid: a strong corporate culture, leadership by example, effective control, and awareness of the cultural context. The first three instruments are described in the previous section; the mechanism of their deployment is the same. Additionally, transparency both within the company and with external stakeholders ensures better control over the individual and collective actions and encourages employees to act in compliance with laws and internal regulations.

**Informality in dealing with authorities**

One of our respondents recalled a case very similar to a case described in an open letter, dated 23 July 2012, by Edward Bekeschenko, a partner at the international law firm Baker & McKenzie working in Russia. Bekeschenko appealed to Anton Ivanov, Chairman of the Supreme Arbitration Court of the Russian Federation, and described the case of his client, Alcatel-Lucent. He doubts the open-mindedness of the decision made by the local arbitration court for several reasons: ‘Our client (Alcatel-Lucent) had received information

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14 Conflict of interest: a ‘situation where an individual or the entity for which they work, whether a government, business, media outlet or civil society organization, is confronted with choosing between the duties and demands of their position and their own private interests’ [Corruption in the UK. Overview and Policy Recommendations, 2011, p. 6].

15 [http://www.arbitr.ru/_upimg/CDB348CC03D7F52994DF6E00FF57CA3F_%D0%94-1853.pdf](http://www.arbitr.ru/_upimg/CDB348CC03D7F52994DF6E00FF57CA3F_%D0%94-1853.pdf)
on the day before the case hearing at the Moscow Regional Federal Arbitrage Service (MRFAS) that the fate of the case had already been decided and that the bench intended to bring a decision against Alcatel-Lucent. Our client received an offer, from unknown persons, of assistance in getting the judges to make the proper decision. However, unable to see how this could be achieved by transparent legal means, our client refused the offer. It is disappointing that, in this case, the judges brought exactly that decision which had been predicted by those persons who had declared that the court had a prior interest. Bekeschenko requested that the appropriate authorities check the facts for what he suspected to be unlawful influence on the judges in this case.

The Russian judiciary is independent, per se, and is not a part of the legislative or executive branches. However, this independence is doubted by Russian people and businesses. For example, the sociological surveys regularly conducted by the Levada Center, one of the best-known Russian opinion research institutes, show that only 10% of the Russian population believes the Russian judiciary really functions independently, and 27% think that ordinary people can expect fair court decisions.

Table 1. **Definitions of telefonnoe pravo**

<table>
<thead>
<tr>
<th>Responses (in decreasing order of frequency)</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hard to say</td>
<td>35%</td>
</tr>
<tr>
<td>Court decisions made on orders ‘from above’</td>
<td>29%</td>
</tr>
<tr>
<td>Pressure on judges/prosecutors by State officials</td>
<td>20%</td>
</tr>
<tr>
<td>Court decisions made ‘as required and requested’</td>
<td>14%</td>
</tr>
<tr>
<td>Cases are opened and closed ‘as required and requested’</td>
<td>13%</td>
</tr>
<tr>
<td>Pressure on judges/prosecutors by State security services</td>
<td>10%</td>
</tr>
<tr>
<td>Pressure on judges/prosecutors by criminal groups</td>
<td>9%</td>
</tr>
<tr>
<td>Selective law enforcement: the opening and closing of cases is influenced by the status of the opponent</td>
<td>9%</td>
</tr>
<tr>
<td>Selective law enforcement: court decisions are influenced by the status of the opponent</td>
<td>8%</td>
</tr>
<tr>
<td>Pressure on judges by prosecutors</td>
<td>7%</td>
</tr>
<tr>
<td>Others</td>
<td>12%</td>
</tr>
</tbody>
</table>

One of the most common informal tools widely used in the Russian judicial system is **telefonnoe pravo** (literally: telephone justice). This practice dates back to the time of Stalin

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(1922–1953). Stalin and his subordinates tended to lead the country not through laws, but rather by making oral commands over the telephone. This was not only the product of a weak legal system, but, by not requiring anything to be in written form, it made it possible to hide the real names of the relevant parties, thus shielding Stalin from any public blame. Russians understand the term ‘telefonnoe pravo’ to mean the following (Table 1):

This has some consequences for the business activities of many companies operating in Russia. One Russian CEO explains how it usually works: ‘… judges of the lower courts will understand that very well based on decisions that were overturned. ‘Broken decisions’ [slošali resheniia] is the specific term. [Judges] make decisions and then see how in the higher courts another reverses them. If someone begins to examine the decisions, and then … these broken decisions can serve as a premise to not extend [judges’] contracts, and when a person becomes a judge he receives, for example, a salary of 80,000 RUB (~ 1,830 EUR), … [he] pays, for example, a mortgage of 30,000 RUB (~ 700 EUR) and he has only 50,000 RUB (~ 1,130 EUR) left, so he tries to hold on to his position. And sometimes, he makes such stupid and idiotic decisions that one can only wonder. There is no independence, no expertise, no conscience, and no accountability in the judicial system …’.

The same CEO expresses his doubts about judges’ competence: ‘We do not have a qualified court in our country. When we resolve court orders in the Second and Third Instances, where there is collegial decision making, where there are judges of the highest qualification and the first category, you suddenly understand that the judges are not at all responsible for the decisions they make. The freedom of this court decision making is in reality a scary thing. A judge is free from responsibility. There is a mechanism to hold [a judge] responsible for their decisions, this is a criminal sentence, which allows the punishment of a judge for previous unfair decisions. And the second category is negligence, i.e. the judges are not qualified, negligent in their duties and are absolutely irresponsible. Such is the situation in the country.’

Strategies to mitigate informal practices in dealing with authorities

According to German managers, dealing with authorities in a manner that is compliant with international law and with a company’s internal regulations is one of the most difficult parts of doing business in Russia. The countermeasures described in the two previous sections do not apply here; in this case, a party with a monopolistic position in the matter is involved. In order to counteract ambivalent situations while dealing with the authorities, Western companies mainly resort to two instruments: an independent judicial system, and outsourcing. Since the judicial system in Russia is not reliable from the point of view of foreign companies, they try to ensure that potential disputes are resolved in other Western European countries instead. Clauses to this effect are common in contracts.

Since authorities have a monopolistic position in many matters, such as issuing permits or certifications, foreign companies cannot avoid dealing with them if they want to establish a business in Russia. However, they can avoid direct contact with the authorities by introducing an intermediary. We call this strategy ‘outsourcing’. According to this strategy, foreign companies try to find a local partner to be responsible for dealing with the local authorities. For example, for turnkey construction, a foreign company would be a supplier of components, whereas the construction itself would be outsourced to a third party.
Table 2. Strategies to deal with corruption, and empirical evidence

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Empirical Evidence</th>
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| **Leadership**              | Non-corrupt charismatic leaders setting an example for other employees  
According to a GLOBE study, Russian employees prefer a charismatic/value-based and team-oriented leadership style [House, Hanges, Javidan, Dorfman, Gupta 2004]. Taking the historical background into account, Grachev and Bobina [Grachev, Bobina 2006] point out that the profile of an effective leader in a Russian context includes administrative competency, the capability to make serious difficult decisions and the ability to inspire employees to meet performance targets. Such a profile conveys two main aspects: On the one hand, such a leader inspires employees by living their values and showing a ‘positive’ example; on the other hand, they empower the employees to act in a similar manner by using a collaborative approach with the team. Thus, the employees live the ‘positive’ example of the leader. |
| **Judicial Independence**  | Ensuring judicial independence while dealing with Russian counterparts  
Transparency International stresses that the independence of the judicial system is crucial for its effectiveness and the elimination of corruption. Moreover, it is not enough to ensure judicial independence de jure; de facto judicial independence is much more important in dealing with corruption and ensuring economic growth [Rose-Ackerman 2007]. Given the fact that Russia ensures judicial independence only de jure, multinational companies might need to find opportunities to resolve disputes in the courts of countries with a high de facto judicial independence, e.g. Switzerland and Austria. This can be done through respective contract clauses. |
| **Effective Control**       | Establishing effective instruments of internal and external control  
Schuchter [Schuchter 2012] proposes implementing effective internal and external control to counteract corruption, bribes and fraud. In one of his recent studies, Schuchter conducted interviews with former Swiss and Austrian senior executives, CEOs and owners of large enterprises who were convicted of corruption, bribes, fraud, embezzlement or fund misappropriation. The interviews with these criminals revealed two main ‘incentives’ for white collars to engage in corruption: gaps in the enterprises’ control systems and long-term trust relationships with external auditors who were less thorough during their inspections. |
| **Transparency**            | Making transparent the company-internal affairs to the external stakeholder  
Transparency International claims [5] that becoming publicly accountable is an effective instrument in the fight against corruption. The results of the survey conducted at 100 enterprises in 16 emerging markets show that companies should be more transparent to their internal and external stakeholders regarding their anti-corruption programs, their operations in general and their participation in joint ventures, affiliates and subsidiaries. |

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18 A de jure indicator of judicial independence focuses on the legal foundation of judicial system, i.e., the method of nominating and appointing judges, their term length, possibility of reappointment, etc. A de facto judicial independence indicates the actual experiences in the country, including the effective average term length of the judges, the number of judges removed from office, their real income, etc.


21 In some Asian countries, people deeply believe in their religion, or in various superstitions. In those countries, one of the effective anti-corruption tools might be an oath. Managers in these Asian countries usually have it written as a poster in their offices and it is usually taken seriously: “If we deviate from the law and implement the law incorrectly or with dishonesty, may all angels, forest spirits, and sacred spirits destroy us; make us die unattended in deep suffering from the bullets of a gun, from a lightning strike, from being hit by a car or motorcycle, from a snake or tiger bite; and in the future make us live separated from relatives and parents, in poverty and suffering for the next 500 lives.”
<table>
<thead>
<tr>
<th>Outsourcing</th>
<th>Cooperation with local partners and suppliers</th>
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<tbody>
<tr>
<td></td>
<td>According to Fey and Shekshnia [Fey, Shekshnia 2011] and Denisova-Schmidt [Denisova-Schmidt 2011], companies can avoid being involved in corruption if they outsource to their local partners activities with a high probability of corruption, such as dealing with regulatory authorities. However, international companies should be careful when using this strategy, as it may be subject to national regulations in some countries. According to these regulations, companies are considered responsible for any corrupt activities of their agents.</td>
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<tr>
<th>Corporate culture</th>
<th>Corporate culture with strong ethical norms and regular training</th>
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<td>The participants of the International Business Leaders Forum B20 in 2013 agreed upon the importance of a strong corporate culture and its regular communication for dealing with corruption. For example, Emerson actively forms a corporate culture that does not accept corruption. All employees of the company are well informed about the company’s code of ethics and the consequences for violating it. Moreover, the employees participate in yearly training sessions, and the company offers an international hotline where the employees can leave an anonymous message. Similar internal anti-corruption rules have been implemented by a majority of multinational foreign companies and are becoming increasingly common in large Russian enterprises doing business with Western Europe and the USA, e.g. Sistema, AVTOVAZ, Ural locomotives.</td>
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<th>Cultural context</th>
<th>Leveraging cultural context and traditions</th>
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<td></td>
<td>Corruption should be seen and understood in its cultural context. Arunthanes et al. [Arunthanes, Tansuhaj, Lemak 1994] indicates that the practice of presenting gifts in the business environment often constitutes a norm in high-context cultures. While low-context cultures tend to rely on formal relationships and contracts, high-context cultures consider offering gifts to be an indispensable condition for doing business [Hall E., Hall R. 1987]. It is important to note that corruption in Russian society has a very long history and is reflected in numerous proverbs: ‘one hand washes the other’ (‘ruka ruku moe’), ‘wheels do not run without oil’ (‘ne podmazhesh’—ne poedesh’). This results in a high level of tolerance for corruption even though there is widespread social agreement regarding the strong need to fight it. Therefore, an appeal to cultural values and traditions might be less effective in the Russian context than in other emerging cultures. Moreover, Russia is a particularistic country. In contrast to universalistic societies, in particularistic societies, the application of rules and laws is selective and individuals might be treated differently depending on the group to which they belong [Hampden-Turner, Trompenaars 2000; Mungiu-Pippidi 2006]. Particularism allows for multiple moralities, which is the status quo in Russia today: everyone blames corruption but also finds it justifiable. There is almost no chance of fighting corruption in particularistic societies without making significant political changes and it is hardly possible to expect any positive results in the short-term perspective [Mungiu-Pippidi 2011].</td>
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**Empirical Evidence on Selected Anti-Corruption Strategies**

While corruption in the West represents a deviation, corruption in Russia and in other emerging markets is a norm. How should foreign companies deal with informality and/or corruption in Russia? First of all, they should acknowledge the existence of both issues and establish appropriate strategies even before going to Russia [Denisova-Schmidt, Ledeneva, Shekshnia 2014]. Table 2 summarizes the strategies used by foreign companies in our data set which might be applicable for other foreign companies working in Russia and/or expanding their activities in the country. We also provide empirical evidence from other sources and previous research to support the findings of our empirical study.

**Conclusion**

Our article revealed some of the main informal practices and the strategies to manage these practices from the point of view of Western companies doing business in Russia. Through an empirical study based on 42 in-depth interviews with German and Russian...
managers, we found that foreign companies deploy different strategies to mitigate informality depending on the situation. To counteract informal practices in a company’s internal affairs, foreign companies deploy a strong corporate culture, leadership by example, effective control, and an understanding of the cultural context. Additionally, transparency is leveraged in cases of informality in relations with external partners and suppliers. In contrast, the main strategies for counteracting informality in dealing with authorities are judicial independence and outsourcing. Though our data set encompasses interviews only with German and Russian managers, we hypothesize that these strategies are also applicable for other Western European multinationals which have their headquarters in Western European countries other than Germany. Additionally, we hypothesize that these strategies are applicable in other CIS countries. Future research is needed to verify these hypotheses.

References


Неформальные практики бизнеса в России: опыт иностранных компаний

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Ключевые слова: кросс-культурный менеджмент, неформальные практики, коррупция, иностранные компании

22 В этой статье О. Крыжко представляет только свою точку зрения, а не позицию компании.
Понятие «неформальная экономика» объединяет все виды экономической активности, не подчиненные государственному регулированию. В литературе многократно подчеркивалось, что изучение деятельности формальных структур является принципиально неполным, если игнорировать неформальную составляющую их деятельности, и «взгляд изнутри» дает возможность понять логику и причины неформальных практик.

Неформальная экономика в России имеет давнюю традицию: система кормлений чиновников в Киевской Руси, мздоимство и лихоимство в имперской России; по меркам сегодняшних стандартов она может быть квалифицирована как коррупция. Как западные компании находят баланс между западными стандартами и правилами «бизнеса по-русски»?

Иностранные компании в России

В период 2000–2008 гг. прямые иностранные инвестиции в экономику России выросли примерно в 30 раз (с 2,714 млн долл. в 2000 г. до 74,783 млн долл. в 2008 г.). В ходе экономического кризиса прямые инвестиции сократились на 50%, но уже в 2010 г. восстановился позитивный тренд, достигнув пика 79,262 млн долл. в 2013 г., но затем последовало падение инвестиционной активности в связи с негативными оценками перспектив российской экономики, санкциями со стороны западных стран в ходе обострения российско-украинских отношений. Впрочем, российские эксперты сохраняют оптимизм по поводу экономических перспектив страны: отмечается, что они более мягкие, чем санкции, вводимые в свое время против Кубы, Ирана и Ирака, и ограничены в основном нефтегазовым сектором. При этом иностранные компании, работающие в России, сталкиваются с сокращением спроса ввиду экономической рецессии, но лишь единицы решили покинуть российский рынок. Большинство компаний заняло наблюдательно-выжидательную позицию, когда сокращение инвестиций в прежние направления сопровождается поиском других выгодных ниш.

Наибольшая доля прямых иностранных инвестиций в российскую экономику приходится на страны Западной Европы. Так, в 2012 г. 61% таких инвестиций приходилось на Люксембург, Ирландию и Нидерланды. В 2013 г. тройку лидеров представляли Великобритания, Люксембург и Ирландия (совокупно – 58% прямых иностранных инвестиций). Такая ситуация объясняется привлекательностью налоговой политики этих стран, что определило их выбор в ходе «налоговой оптимизации» деловых агентов. Наиболее притягательными для иностранных инвесторов были оптовая и розничная торговля, промышленность, финансовый и страховой сектора, на которые приходилось около 70% прямых иностранных инвестиций.

Наиболее важными торговыми партнерами России в 2012–2013 гг. были Китай и Германия, на которые приходилось около 16,7% и 11,9% российского импорта соответственно. Наибольшая же доля российского экспорта приходилась на Нидерланды (13,3% в 2013 г.).
В структуре российского импорта лидируют машины, оборудование и средства транспорта, тогда как в экспорте абсолютно доминируют энергоресурсы (72% экспорта).

По уровню благоприятности ведения бизнеса Всемирный банк в 2015 г. отводит России 62-е место из 189 стран (Index Doing Business). При этом Россия имеет неплохие оценки по обеспечению контрактного права, возможностям регистрации бизнеса и налоговой политике; хуже всего обстоят дела с доступом к энергосетям и ситуация с таможенными барьерами.

Для того чтобы понять российскую деловую культуру и местные практики, необходимо отказаться от клише и стереотипов. Важно понять, что одно и то же явление может иметь различные значения в понимании его участников, и трактовка всегда зависит от контекста.

Эмпирические результаты

Статья основана на экспертных интервью, проведенных в 2012–2013 гг.: 12 интервью с владельцами российских предприятий и 30 интервью с немецкими и российскими работниками, которые трудятся в российских отделениях немецких промышленных предприятий.

Интервью показали широкое распространение неформальных практик во внутренней и внешней деятельности компаний. В их числе:

1. Нематериальные блага для работников, в т.ч. корпоративные праздники.

Российские организации часто практикуют корпоративные мероприятия для своих работников и членов их семей. Такие события проходят в роскошных ресторанах, загородных пансионатах по принципу «все включено». Размах мероприятий поверг в шок нашего респондента из Германии, который посчитал это сумасшедшей тратой денег. Заметим, что во многих европейских странах существуют ограничения на финансирование корпоративных мероприятий. Так, в немецкой компании, где работал этот респондент, расходы на внутренние мероприятия не превышали 70 евро на человека на полгода. Однако в России такие мероприятия – это немонетарная награда работникам, фактор их лояльности фирме: многие российские семьи не имеют финансовой возможности устроить для своей семьи такой праздник, что компенсируется корпоративными мероприятиями.

Другого немецкого менеджера поразила просьба российских коллег остаться на ночь в номере шикарного отеля, который снял для переговоров (и ночью все равно пустовал). Россияне оценили эту возможность как нематериальное благо, дарованное фирмой. В Западной Европе нужно было бы лично оплатить номер или причислить его использование к доходу, облагаемому налогом.

На такие мероприятия могут приглашаться и партнеры по бизнесу, что может трактоваться в западной практике как коррупция. В России же они выражают удовлетворенность от совместной деятельности и надежды на будущее плодотворное сотрудничество.

2. Личные дела в рабочее время.

Российские работники иногда используют рабочее время в личных целях, например, для похода в магазин или преждевременного ухода с работы и т.д. Немецкого менеджера удивила ситуация, когда посылаемый на зарубежный
семинар работник остался там еще на день, чтобы просто отдохнуть. При этом речи о сверхурочной отработке не было. В понимании российского работника это была своеобразная плата за добросовестный труд и периодические задержки на работе сверх нормы. В России сформировалась негласная норма: если надо, работники остаются на работе сверх положенного времени, но за это они вправе использовать рабочее время в личных целях.

3. Прием на работу родственников.

В российском бизнесе считается нормальным прием на работу родственников сотрудников. Нужно учитывать, что в России распространены градообразующие предприятия, на которых работает значительная часть жителей города, включая друзей и родственников. Родители устраивают детей на работу в ту же фирму, где работают сами. И фирмы видят в этом гарантию лояльности сотрудников. Вместе с тем такая практика, социально одобряемая и приветствуемая в России, с точки зрения западных стандартов может называться непотизмом и фаворитизмом.

Неформальные практики во внешней среде бизнеса включают:
1. Самозаполнение бланков о расходах.

В России таксисты на просьбу выдать чек предлагают пустой бланк, куда сам пассажир может поставить сумму для увеличения компенсации расходов от фирмы. Кроме того, таксисты часто дают свои визитки: если позвонить ему лично, то он не будет отдавать часть дохода фирме, считая, что нашел пассажира самостоятельно.

2. Включение ужина в цену за гостиницу.

В отелях малых городов России распространенна практика, когда гостиничный сервис, например, ужин, включается в стоимость номера, тем самым у командировочных появляется возможность сэкономить суточные, выделяемые в т.ч. на ужин.

3. Приоритет друзей и родственников как деловых партнеров.

Бизнесмены в России предпочитают иметь дело с проверенными партнерами, с теми, кого они хорошо знают. Они не боятся того, что на Западе называют конфликтом интересов: друзья и родственники всегда окажутся победителями тендеров, даже если их предложения не самые лучшие.

Антикоррупционные стратегии иностранных компаний

Еще до появления в России фирмы имеют представление о положении дел и выстраивают стратегию с учетом этого знания. Возможные стратегии, учитывающие неформальные практики в российской бизнес-среде, следующие:

1. Лидерство. Не приемлющие коррупцию харизматичные лидеры подают пример сотрудникам. Это стратегия позитивного примера, которому следуют подчиненные.

2. Юридическая независимость. Поиск площадок для независимого рассмотрения судебных споров с российскими партнерами. Учитывая, что в России судебная система независима лишь де-юре, транснациональные компании пытаются решать споры в тех странах, где суды независимы де-факто, например, в Швейцарии и Австрии.

3. Эффективный контроль. Установление эффективного внутреннего и внешнего контроля. Опасность таится в долговременных отношениях с внешними аудиторами, что может снизить эффективность проверок.
4. Транспарентность. Открытость внутренней деятельности компании для внешних акционеров.

5. Корпоративная культура. Строгие этические нормы, распространяемые с помощью постоянных тренингов. Работники должны разделять этическое неприятие коррупции и знать о санкциях в случае их нарушения.

6. Культурный контекст. Понимание культурного контекста коррупции, в частности, значения и роли подарков в деловой традиции России.

Коррупция в России имеет длительную историю и зафиксирована во множестве пословиц. Это государство относится к партикуляристским обществам, где правила и законы действуют селективно, это страна с двойными стандартами морали, когда осуждение коррупции сочетается с ее оправданием. Поэтому иностранные фирмы, работающие в России, не должны иметь никаких иллюзий относительно возможности быстрого изменения ситуации с коррупцией.

Коррупция на Западе является девиацией, тогда как в России – это норма. Иностранные компании, работающие в России, постоянно должны искать баланс между западными нормами и местными практиками, поскольку отказ от западных норм может привести к конфликту с международными организациями, к потере позиции на рынке других стран, а игнорирование российских деловых традиций может стать причиной провала на этом рынке.

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