

## POLITICAL RISKS OF WESTERN COMPANIES IN A TRANSFORMING COUNTRY EVIDENCE FROM RUSSIA 2014

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### **Abstract**

Foreign companies form an integral part of the economic landscape in their respective host countries. Western enterprises have to face specific risks and obstacles related to the current local democratic and economic development stage and they are confronted with political risks such as corruption, favouritism or legal uncertainty. This paper is based on the evidence collected during a field study conducted between March and September 2014 in Austria and Russia. The author conducted 23 qualitative interviews with Austrian business representatives operating in Russia and Russian experts concerning various aspects of the business environment. The results of this study are intended to be used for the improvement of the understanding of specific business conditions prevailing in Russia. This paper should be considered a valuable foundation for further in-depth research both on political risks and individual factors.

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## 1. Introduction

After the breakup of the Soviet Union, the Russian Federation, as its main successor, seemed for many scientists to be on a path towards Western-style democracy and free market economy. Two decades of transformation have shown that many informal institutions inherited from the Soviet period are still present in political and economic life. The transformation process, however, has changed their character and scale.

This article discusses the political risks faced by foreign businesses in Russia. My purpose is to demonstrate the impact of informal institutions embedded in the political-institutional framework of a host country on the business development of Western enterprises. The aim is to look for answers to the following research questions: What are the manners in which the Russian business environment can be characterized by neopatrimonial practices and how do Western enterprises react to it? The latter question concerns coping strategies introduced by them in order to adjust to Russian market conditions.

There is a wide range of studies on informal individual factors which characterize a neopatrimonial system, such as patron-client relationship, various forms of corruption or the absence of rule of law. The impact of informal institutions within such a system on international business has not been addressed yet. This article attempts to bridge this gap by offering a comprehensive multidisciplinary approach.

The first section presents a literature review and methodology. The second part consists of a detailed case analysis of the consequences of political risks for Western firms in Russia. The final part outlines the coping strategies adopted by these companies when trying to deal with the business environment they operate in. At the end of this paper, I will try to summarise the most relevant findings.

## 2. Conceptual framework: Political Risks and Neopatrimonialism

So far, no universally accepted definition of political risks in business administration has been established, let alone a list of indicators. Despite the proliferation of definitions and theoretical concepts, however, there is at least a common understanding. Agarwal and Feils (2007) describe political risk as the consequence of possible interference by external agents with business operations. The results of changes are risky only if they have a potentially profound effect on profits or other objectives of a particular enterprise (Robock, 1971: 7).

Political risk is omnipresent; it can occur both in high-industrialised as well as Less Developed Countries (LDCs). The distinction between them lies in the manifestation of risk factors and the level of institutional development. Typically, LDCs have less developed institutional frameworks, and, consequently, various informal institutions substitute formal institutions and impact business activities (Meyer & Peng, 2016: 5-6).

When searching for matching ideas which may be applicable for transition countries, one encounters the concept of neopatrimonialism, which is mainly used in political science. It analyses the coexistence of formal and informal institutions within a political system (Bratton & Van de Walle, 1997). Neopatrimonialism describes a type of system in which the tradition of patron-client networks is inter-related to some kind of rational-legal bureaucratic structure. Formal structures and rules do exist, even if the distinction between the private and public sphere is not always detectable in practice (Erdmann & Engel, 2007: 105). This situation creates uncertainty for stakeholders. Under a neopatrimonial organisation “people have a certain degree of choice as to which logic they want to employ to achieve their goals and to best realise their interests” (Erdmann & Engel, 2007: 105).

Informal institutions are “mainly unwritten, socially shared rules and procedures, which are put into social live, distributed and implemented “outside of officially sanctioned channels” (Helmke & Levitsky, 2004: 725). They might include corruption, personal networks, clientelism and patronalism (Helmke & Levitsky, 2004: 727-729).

Informal institutions exist regardless of properly or improperly functioning formal institutions. If informal institutions coexist with ineffective formal institutions, the former are supposed to substitute or compete with the latter (Helmke & Levitsky, 2004: 729).

Although the concept of neopatrimonialism is still underdeveloped and ill-defined due to lack of coherence, some factors, such as corruption, rent seeking, patron-client relationships and legal uncertainty are widely used to describe this phenomenon. These informal factors are embedded in the political system but, due to the interplay between politics and economics, they mainly tend to influence the latter.

This paper focuses on informal institutions in a neopatrimonial system and their consequent impact on the operational environment of Western companies. Corruption and favouritism based on clientelism and patronage can be regarded as two risk factors in a broader set of political risk factors with direct consequences on companies' performance.

Corruption is an umbrella term which covers various aspects, such as collusion, cronyism and nepotism, fraud, gifts, hospitality, lobbying, abuse of power or office and influence peddling (Shekshnia *et al.*, 2014: 5). This broad understanding can be found in the widely cited definition by Nye. According to this author, corruption is a behaviour that deviates from formal duties or rules of conduct governing the actions of an officeholder, because of their private motives, namely, wealth, power, or status. This pattern can be detected in various forms, i.e. bribery, nepotism and misappropriation. The first practice is always of a monetary nature, the last two may also have a non-monetary character (Nye, 1967: 419).

The definition has a very broad scope in terms of types of corruption and gains. For this paper, I have adopted a narrow understanding, which is limited to the monetary nature of corruption acts. Systemic corruption means that politicians and officials use their authority in order to sustain their private wealth.

Taking into account the importance of non-monetary aspects of relations within informal institutions, the term “systemic favouritism” is to be introduced and consequently applied. Systematic favouritism describes the use of public office to foster the interests of the patron himself and/or his clients, while impeding the interests of actors who are no part of this network.

### **3. Literature review**

Economic and financial literature on political risks has been developing since the 1960s. Much of the research work has been dedicated to expounding on concepts and definitions.

A comprehensive model of two dimensions and three factors of political risks has been developed over time. Robock (1971) commences by drawing a distinction between macro and micro political risks. While macro risks are typical for all firms in a host country, micro risks impact only a select group. The micro level is important for analysis due to the fact that what may be a political risk for one company may not be the same for another (Robock, 1971: 8). Haner (1979) added internal and external dimensions to this model (Alon & Martin, 1998: 12). Internal risks are caused by the host country while external ones are generated by the home country, the international environment or the global scene. Simon (1982) combined both approaches and divided the factors into society-related and government-related. Alon (1996) added a third factor: economy-related political risks. Simon (1994) extended the model of internal and external dimensions to include direct and indirect risks. Torre and Neckar developed a model of exposure to political risks based on two dimensions: loss as a result of governmental actions or actions caused by non-governmental actors and loss contingencies or value contingencies. These four types of risk exist at the micro and macro levels.

Jensen (2003 and 2008) has analysed the impact of political regimes on risks for international investors. He (2003) explored the casual link between democratic governance and foreign direct investment (FDI). Results show a positive relationship between democracy and a country’s ability to attract foreign investors. In another article Jensen (2008) focused on the relations between political regimes and political risk and found out that democratic institutions tend to reduce risks for international investors. This happens especially through increasing constraints imposed on executives.

The character of risks has changed over time. Typical risks of the 1960s and the 1970s, such as expropriation of business assets, have vanished or have become a

minor problem for companies and new risks came to the forefront. According to Markwick, corruption belongs to the five important new risks, which have dominated the relevant scene since the 1990s (Markwick, 1998: 45). This was not a newcomer in the business world but there is evidence that the significance of this risk started increasing at that time.

Liuhto (cf. Liuhto 2010) analyses Russian political risks by applying Alan and Martin's macro risk model on Russia. He assesses developments in a firm's environment in the first decade of the 2000s. Liuhto came to the conclusion that the stability of the current political regime, the protracted instability in the Caucasus region, rising nationalism and the deteriorating opinion of the world concerning Russia, as well as the significant increase in unemployment rates in the region are key-determinants, which increase macro risks in Russia.

There are a few relatively recent publications that pay focus on the interrelationship between political and economic spheres in Russia viewed through a neopatrimonial prism (cf. Ledeneva, 2013a; Robinson, 2013). The concept of patrimonial capitalism applied by Robinson can be seen as a variant of Weber's patrimonialism and neo-patrimonialism in the economic sphere (Robinson, 2011: 4). Ledeneva analysed the nature, norms and methods of informal governance under Putin based on this concept (Ledeneva, 2013a: 1136).

If we take a broader look at relevant literature on the interplay between politics and economics in Russia, without direct reference to the neopatrimonial concept, we may observe different lines of research. Scientists elaborating on transition or area studies have noted the existence of a variety of informal practices, including the corruption of the public sector and the informal networks of the ruling elites.

Much has been written about one particular informal institution, namely, corruption. When we look at Russia, this phenomenon is widely discussed as a practice inherent in bureaucracy and the political system (Cheloukhine *at al.*, 2007; Leslie, 2012; Orttung 2006; Rozov, 2013). Leslie claims that: "corruption has been, is and will continue for some time" to be an important problem in Russia. According to Cheloukhine, forms of corruption are "constantly changing and getting more sophisticated" (Cheloukhine *at al.*, 2007: 53). As for the agents involved, Rozov explains that each of the three tiers of the corruption pyramid (i.e., politicians, bureaucrats and citizens/businessmen), has its own informal but relatively stable and highly respected corporate rules (Rozov, 2013: 47). When we look at geographic highlights, the most corrupted locations are Russia's major cities, due to the strong concentration of red tape there (Orttung, 2006: 2).

Corruption networks within political and economic elites have been another popular topic for research on informality and informal institutions (Hanson, 2013; Ledeneva, 2013). One of the pioneers in this area is Ledeneva. She describes how bribes are shared within power networks (Ledeneva, 2013). Her perspective is

based on in-depth interviews with insiders and enhanced by evidence of workings brought to light in court cases. According to her, there are four key types of networks, namely, the inner circle, useful friends, core contacts and more diffuse connections, functioning under Vladimir Putin's system of governance – referred to as *sistema*. Collection and redistribution of bribes is a key factor of this system (Ledeneva, 2013: 106). Hanson writes about increasing involvement of politicians in Russian business and points a finger to the extractive industry and high-tech sectors as core areas of close cooperation between senior officials and businesspeople (Hanson, 2011: 119).

There are also a few quantitative studies on informal practices related to corruption in domestic and foreign business in Russia (c.f. Fey & Shekshnia, 2011, Ledeneva & Shekshnia 2011). Ledeneva and Shekshnia (2011) asked 33 representatives of domestic and foreign companies to describe the extent to which their businesses were confronted with informal practices at the regional level. Based on the results, the authors categorised informal practices into five groups: 1. “Dinosaur” practices, i.e. ever or rarely used practices, which include extorting favours from job candidates or briberies to officials. 2. The most commonly used practices are tagged as “predator” practices, which describe, for instance, informal money flows between state and business and include voluntary or constrained payments related to fire inspections, customs tax or financial engagement in regional projects and programmes. 3. “Black cash” practices, which are in decline and include payments for a court decision, to a prosecutor or the police. 4. The term “rat” practice describes internal informal corporate practices. It means, *inter alia*, the use of the company's resources for personal gain. These take the form of kickbacks or the selection of services based on informal relationship. 5. There are also practices tagged as “Penguin” practices still applied. This term describes, for instance, practices based on life-long informal ties and networks used by companies to ensure state contracts or conflict of interest in the form of cronyism/nepotism. 6. Another potentially useful instrument may be “hook” practices, i.e. the use of a *kompromat* or other informal materials to exert pressure on competitors or officials. (Ledeneva & Shekshnia, 2011: 14-17).

There are also a few qualitative studies showing empirical evidence of private businesses coping with corruption. Kouznetsov and Dass have conducted a field research study of areas of corruption among Russian distributors of foreign goods (Kouznetsov & Dass, 2010). Their findings reveal that smaller distributors are more affected by corruption demands than large firms (Kouznetsov & Dass, 2010: 24). Another aspect was the focus of Karhunen and Kosonen. They looked at how a company rooted in a low-corruption home country can adopt domestic compliance standards in a corrupted host country. The authors found out that large companies can avoid corruption acts due to their financial and relational resources. SMEs, however, have to adapt to the corrupt environment (Karhunen & Kosonen, 2013: 88) and have also designed strategic responses to corruption as idealists, selective and

ceremonial conformists or pragmatists (Karhunen & Kosonen, 2013: 99). Having conducted a study of 36 foreign companies in Russia, Fey and Shekshnia (2011) worked out 8 recommendations for doing business in Russia. A piece of their advice focuses on corruption. The authors define some forms of bribes, such as contribution to a special project, bribes to judiciary and regulatory bodies, extortion from power ministries, or commissions to high state officials. Companies designed four strategies for dealing with corruption acts: outsourcing, pre-emption, abstention from corruption and postponement of entering a corrupt market.

### 3. Methodology

This paper presents the findings of a field study conducted by the author between March and September 2015 in Russia and Austria. The selection of a qualitative approach was made because of the sensitive character of the research problem. This method helped me to better investigate the “how” questions of my project.

Based on an extensive literature review I designed a questionnaire and, consequently, a classification system. The interviews were semi-structured and conducted on the basis of guidelines. The questionnaire provided me with valuable support for keeping to the structure. Expert interviews were selected as the data collection method. One to one interviews conducted in a confidential manner provided access to information that would not otherwise have been accessible.

The author contacted about 200 Austrian companies registered in Moscow and 10 scientists, journalists and NGO activists. Interview partners were chosen by targeted selection applying the position technique, while scientific respondents by applying the reputation technique. The selection criteria for both groups were their expertise and their position. All academic experts are renowned researchers; all but one business partner were of the executive level. This implies deep knowledge of and experience in all aspects of business operations in the host country. My aim was to get a broad field of expertise of various types of enterprises so as to be able to compare my findings with those of local experts from the academia.

The geographical focus on Moscow was dictated by the fact that the country strategies of foreign enterprises focus mostly on a few regions or regional centres. They settle their subsidiaries particularly in better developed regions of Russia, such as Moscow or Saint Petersburg. A rate of 40-50 % of FDIs is concentrated in these locations (Deuber, 2014: 13).

Representatives of Austrian businesses were invited to contribute to a project on the political-institutional framework for business activities. Russian scientists, journalists and representatives of NGOs were directly asked to share their relevant knowledge in their field of expertise. Both groups were approached with an offer of guaranteed strict confidentiality and were asked the same categories of questionnaire questions. Interviews were conducted orally and due to the confidentiality

promised I have codified the names of the firms involved. Business interview partners represented a wide range of sectors and companies from SMEs to large enterprises. Eventually, I was granted access to enterprises active in high-tech, winter sports equipment, consulting, construction, mining, logistics, beverages, office equipment, agriculture and pharmaceuticals. This broad range enabled me to get a clearer picture of practical problems.

The response of Russian scientists, journalists and representatives of NGOs was high. The possible causes of the low rate of responses among Austrian companies may be explained by two factors: inopportune timing and thematic connotations. The project was launched at the time of the onset of the EU sanctions against Russia following the Crimea annexation. This may have increased the sensitivity perceived on possible answers to the research topic. Some companies may have interpreted the broadly formulated topic in the context of political corruption and were not willing to share their experiences in the light of official commitment to compliance standards. Another factor may have been the unclear political developments in regard to the sanctions eventually imposed by the EU and the Russian government's reactions.

The interviews were mostly conducted in person allowing for a broader conversation on topics of interest and helped the author gain deeper insights into the structure and workings of informal institutions in Russia. The language used was the choice of the interviewee from English, German or Russian. The 20 face-to-face interviews were supplemented by 3 telephone and Skype interviews. Each of them lasted one hour on average. Of the interviews 19 are recorded, while 4 respondents preferred not to be recorded; however, I obtained permission to take extensive notes.

After data collection, the interviews were transcribed in full in the respective original language. The classification system guided me through the analysis of the interview material. In this respect, I followed Mayring (2015). Furthermore, I summarised qualitative content analysis while applying the deductive approach. The reason to opt for this procedure was the plethora of literature already existing providing a wide range of variables and concepts which could be used as points of departure.

## **4. Political Risk and its Consequences for Western Business**

### *4.1 Political corruption*

Corruption exists in many forms and it is committed at various levels in Russia. Due to the hidden nature of such transactions, it is very difficult to identify the structure and the final beneficiary of this practice. According to some Russian interviewees, the phenomenon is centrally conducted and the strings lie in the hands of President Putin (Interview 4, Interview 17). There is no consensus among them as to whether corruption has a pyramid form or as to the corruption money collected at each tier of the pyramid.



Some companies observe that since 2011-2012 the fight against corruption has made progress in Moscow, at least at the level of middle-sized companies (Interview 13, Interview 15, Interview 21). As a representative of a Winter Sports Supplier noted, "it is still a longer process, but the protests at Bolotnaya Square have contributed to it and the state is reading the signals".

Western firms encounter corruption mostly in state administration, where public officials demand things they should not (Interview 2, Interview 5, Interview 19, Interview 30). According to a Russian researcher, corruption structures operate in all state institutions (Interview 9). Each body has a certain sphere of specialisation. A representative of a Business Association stated that corruption is visible in some state regulatory bodies (at the senior official level) such as the finance police, the tax inspectorate, the customs service, the fire department, the labour inspectorate or the sanitary inspectorate (Interview 21).

As for the scale, the number of corruption transactions may be dropping but the range of the money trail grows, stated Russian researchers and the representative of an Austrian business (Interview 8, Interview 16, Interview 17). Corruption money also constitutes a kind of compensation: As salaries in public administration are quite high, it is a higher risk for an official to become involved in corrupt practices, explained the Russian interview partner. Companies are using this practice mainly for accelerating or delaying decisions or processes (Interview 2, Interview 5, Interview 21).

Official combat against corruption makes basic bribery more difficult. The old practice of an envelope containing money is not possible any more. This was noted by both Russian experts and representatives of Austrian businesses (Interview 9, Interview 13, Interview 15, Interview 17). The rate of corruption payments depends on the size of the contract and the type of service. The average rate of kickback is estimated at 30-40 percent of a transaction, confirmed a Russian researcher and an investigative journalist (Interview 9, Interview 11).

The incidence of such acts depends on the size of the project and the line of business. Bribing or kickbacks are still present in infrastructure projects, especially in state ordered projects (Interview 15). It is also used in branches which work with projects in general. Each one needs a permit from the state or from a licensed company (Interview 19).

A foreign company may encounter such a demand when it is awarded a state contract or a contract with companies close to the government. The chance of solicitation of bribes is bigger, when the company involved is a large one and when applying for a federal state project (Interview 6, Interview 15). Companies experienced corruption practices when interested in state procurement (Interview 4, Interview 9) and when dealing with public tenders (Interview 15, Interview 19, Interview 21, Interview 23, Interview 24). Corruption schemes are also applied in the areas of certification and licensing (Interview 5, Interview 13, Interview 19, Interview 21).

The situation with public tenders has improved in Russia within the last ten years but winning at public tender remains quite a difficult task for a Western entrepreneur (Interview 21). The prevailing opinion is that compliance standards cannot be met at state tenders (Interview 21, Interview 13, Interview 22, Interview 23): there is no entry barrier, but a foreign company stands a much better chance when it is aware of the informal rules at play (Interview 19).

The situation has also improved in critical sectors like customs (Interview 21). There are still situations where customs services are delayed unnecessarily in order for the situation to be resolved by informal means (Interview 11, Interview 19). Operating companies have learnt how to obtain the willingness of Russian officials. The most frequently chosen practice is outsourcing this service to a broker who has the right contacts and knows the rules (Interview 2, Interview 5, Interview 13, Interview 19, Interview 20).

One of the informal practices is a bonus for the person who has mediated in the business deal (Interview 11, Interview 15). If a company wants to get a contract, it has to deliver a certain percentage for mediation services. However, this practice seems to be applied less and less (Interview 15).

#### *4.2 Political favouritism*

The general view among Russian experts was that there is a close linkage between political and business elites in the Russian model of economic development (Interview 4). As a result, one cannot always distinguish between the role of a politician or official and the role of a businessman. Informal patronage groups in Russia are dynamically developing and their composition changes over time (Interview 4, Interview 17). The core structure remains unchanged and entails politicians, representatives of big businesses (oligarchs), officials of law enforcement agencies (*siloviki*) and, sometimes, criminals (Interview 4). The underlying foundations of patronage relations are trust and loyalty (Interview 4). The binding element remains the President who plays the arbiter between various groups of interest (Interview 4, Interview 11).

Informal networks seem to be a minor problem for business activities of Western companies. There are a few companies that conduct projects with state companies, firms with government links or partners who are politically well-connected (Interview 10, Interview 18, Interview 19, Interview 20, Interview 23). Experience seems to suggest that one needs such networks to make business run more smoothly (Interview 19). Large companies need additionally political protection (Interview 4, Interview 17). As Russian researchers reported, if a domestic or foreign company wants to be competitive in its sector, it needs to be protected by political connections. The company pays a certain percentage for political protection, but has a guarantee that its work will not be disturbed (Interview 17). It is important to have connections in the right informal circle. A wrong decision will have negative consequences

on one's business (Interview 4). According to an experienced entrepreneur, political contacts start at the United Russia party (Interview 13).

The Russian economy is based on a small number of large companies in which the state holds majority stakes. In big state projects, a foreign enterprise will be able to win such a project only with a strong Russian partner with political clout. This means that one needs to be in partnership with a key player (Interview 10, Interview 18). When a foreign investor wants to cooperate with companies close to the state, it is important to know a business partner who is well connected with the federal state apparatus (Interview 20).

There are very few cases, when an Austrian or German company has been threatened with an unfriendly takeover labelled as a raider attack (Interview 15, Interview 21). A representative of a business Association explained a Russian modus operandi: if a confronted company ignores a raider threat, the other party has so far refrained from further action. An attempt may happen in a sector where Russian oligarchs are operating (Interview 23). Enterprises offering good standards in production or trade belong to the high risk group (Interview 21). If an enterprise reaches a certain level of turnover or sales, it can also become the target of a raider attack (Interview 17, Interview 21).

Various options are applied, explained a Russian and an Austrian expert. A company may receive an offer to sell shares to a local, politically well-connected businessperson. In some instances, a Russian businessman becomes dissatisfied with a new Western competitor and falsifies the ownership documents of the foreign rival's company. Then an inspector may be sent, who starts to collect some informal information about the company of interest from insiders (Interview 4). Alternatively, a Western businessman may be forced to sign a document passing ownership over to the raider (Interview 15). Sometimes the raider does not stop short of using law enforcement agencies to fulfil his demands. The third option is to provide some criminal claim to the court. The judge is bribed to issue an illegal sentence which makes the foreign company pay a certain fine. This money is used to pay the law enforcement agencies to take the company over by physical force or use some sort of goods raiders (Interview 4).

## **5. Coping Strategies of Western businesses**

Western companies have developed some strategic options which help them minimise potential losses due to the institutional environment. The companies try to adapt to the local customs perceived in order to be successful.

Foreign businesspeople understand that running a business could be risky in Russia, but potentially brings large profits. Companies reduce some risks by seeking contacts with informal networks. A company can establish a rapport with high-ranking government representatives or look for support through business partners with

political clout. It helps to outsource the corruption problem and obtain contracts. A company can also cooperate with a local consulting company, which has regular connections with the regional authorities and knows their demands and requirements.

Another strategic option in order to minimise the risk of raider attacks is to keep local exposure at a low level. This can be achieved through various measures. Instead of establishing a fully operating local subsidiary, the parent company only sets up a local representative branch which then outsources its activities to local firms or leaves core processes with the parent company in the home country. Another approach in this strategy would refer to property. In order to prevent exposure to expropriation, one has to avoid acquiring any property within the country. Instead, the firm rents its entire business infrastructure, from the building to the telephone line.

The second complex covers corruption. A first strategy is to avoid bribery completely. Some firms have given up doing business with public authorities and try to cooperate with independent “private” partners. They decided not to take part in public tenders or state procurement. Another option is to find a niche where foreign products are sought-after and local competition is low or to offer a high-tech product which cannot be provided by domestic companies or which is dependent on know-how.

Another kind of corruption avoidance is strict maintenance of control over the sensitive areas of the company itself, like finances or accounting, by outsourcing them to external specialised companies. These companies report directly to their headquarters in Europe and thus give overall control to their regional manager.

Corruption, however, can also be outsourced. They can also shift responsibility for some business operations, such as sales and distribution, to the Russian partner or cooperate with independent local companies in these areas. In sectors where state permits, licenses or certificates are obligatory, a company can use a mediator to solve the problem.

## **6. Conclusions**

Research on the effects of corruption and political favouritism in transition countries in the field of political science or of the emerging economies in business studies is still limited. Available data on corruption mostly concern quantitative information. The impact of informal networks on business is poorly analysed. This paper addressed a previously limited area of research in international business: how informal institutions embedded in the political system exercise their impact on the business activities of Western enterprises.

This article is intended to contribute to the development of knowledge concerning political risk in Russia. Empirical findings show the methods and schemes of corruption in a wide range of sectors and in companies of various sizes. The article also provides some insight into methods of operations related to the existence of political favourit-

ism in Moscow. Ledeneva and Shekshnia conducted a quantitative study on a similar topic, but treated Russia in general. They found out that the old practices of “black cash”, such as cash bribes or defalcation, have decreased and have been replaced by more subtle practices, such as supporting pet regional projects or selling companies’ assets under their real value to the selected companies. My research confirmed that nowadays bribery is more sophisticated and that supporting “important” regional projects or selling companies’ shares under their real value to state officials seems to play no role for Western companies in Moscow. Additionally, it shows that corruption acts are not always committed in person, as there are specialised intermediaries.

As the authors mentioned above gained rather generalized results, the intent of this research project was to generate more concrete findings focused on one specific region. The results could serve as a starting point for further research. It would be particularly interesting to explore differences in exposure to political risk in particular sectors or for companies of various sizes. Several issues may emerge from these findings and, consequently, require additional work. Further exploration could provide important insights into the accessibility of local networks to Western businesses, corruption schemes in particular sectors or depending on a company’s size or the use of legal intermediaries for problem solving purposes.

Empirical data were collected in a selected location in Russia (Moscow), which can justifiably be described as a large metropolis with a high concentration of foreign investors. This business environment encountered by foreign companies cannot be generalised for the whole country. Political risks in other regions would certainly make an interesting contribution. Furthermore, practitioners interested in entering the Russian market could also benefit from these findings. They could be warned of the role of informal institutions and develop coping strategies more easily or refrain from entering the market.

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## Interviews

- Interview 1 (25.03.2014) with an executive of a large-sized engineering company (3 years of working record in Russia), established in 1904 in Russia
- Interview 2 (25.03.2014) with an executive of a small-sized company from the transportation sector, established in 2005 in Russia
- Interview 3 (25.03.2014) with an executive of medium-sized company supplier of pharmaceutical raw materials, established in 1992 in Russia
- Interview 4 (26.03.2014) with a senior researcher, Economic University
- Interview 5 (26.03.2014) with an executive of large-sized company for beverage products (4 years of working record in Russia), established in 2007 in Russia
- Interview 6 (27.03.2014) with an executive of a large-sized winter sport supplier (5 years of working record in Russia), established in 2009 in Russia
- Interview 7 (27.03.2014) with an executive a large-sized technology supplier in automotive industry (7 years of working record in Russia), established in 2007 in Russia
- Interview 8 (28.03.2014) with a senior researcher, Economic University
- Interview 9 (28.03.2014) with a senior researcher, local Research Institute
- Interview 10 (31.03.2014) with an executive of a large-sized company for steel products (1 year of working record in Russia), established in 1982 in Russia
- Interview 11 (01.04.2016) with an investigative journalist
- Interview 12 (01.04.2014) with an executive of a large-sized enterprise supplier of refractory products (4 years of working record in Russia), established in 2006 in Russia
- Interview 13 (01.04.2016) with an executive of a small-sized winter sports supplier (26 years of working record in Russia), established in 2012 in Russia
- Interview 14 (02.04.2016) with an executive of a large-sized technology supplier for agriculture (2 years of working record in Russia), established in 2002 in Russia
- Interview 15 (02.04.2014) with an executive of a medium-sized consulting company (11 years of working record in Russia), established in 2003 in Russia
- Interview 16 (02.04.2014) with an executive of a company for office equipment (25 years of working record in Russia), established in 1991 in Russia
- Interview 17 (03.04.2014) with a senior researcher, Economic University
- Interview 18 (03.04.2014) with an executive of large-sized technology supplier for automotive industry (2 years of working record in Russia), established in 2009 in Russia
- Interview 19 (10.04.2014) with an executive of medium-sized a company supplying technology to the biotechnological and pharmaceutical industry (3 years of working record in Russia), established in 1993 in Russia
- Interview 20 (22.04.2014) with an executive of a large-sized company supplier for the cement and minerals industries (4 years of working record in Russia), established in 2001 in Russia
- Interview 21 (14.05.2014) with the head of an economic association (6 years of working record in Russia)
- Interview 22 (03.07.2014) with an executive of a large-sized construction company supplier of steel (7 years of working record in Russia), established in 1993 in Russia
- Interview 23 (24.09.2014) with an representative of a large-sized construction company (2 years of working record in Russia), established in 1991 in Russia