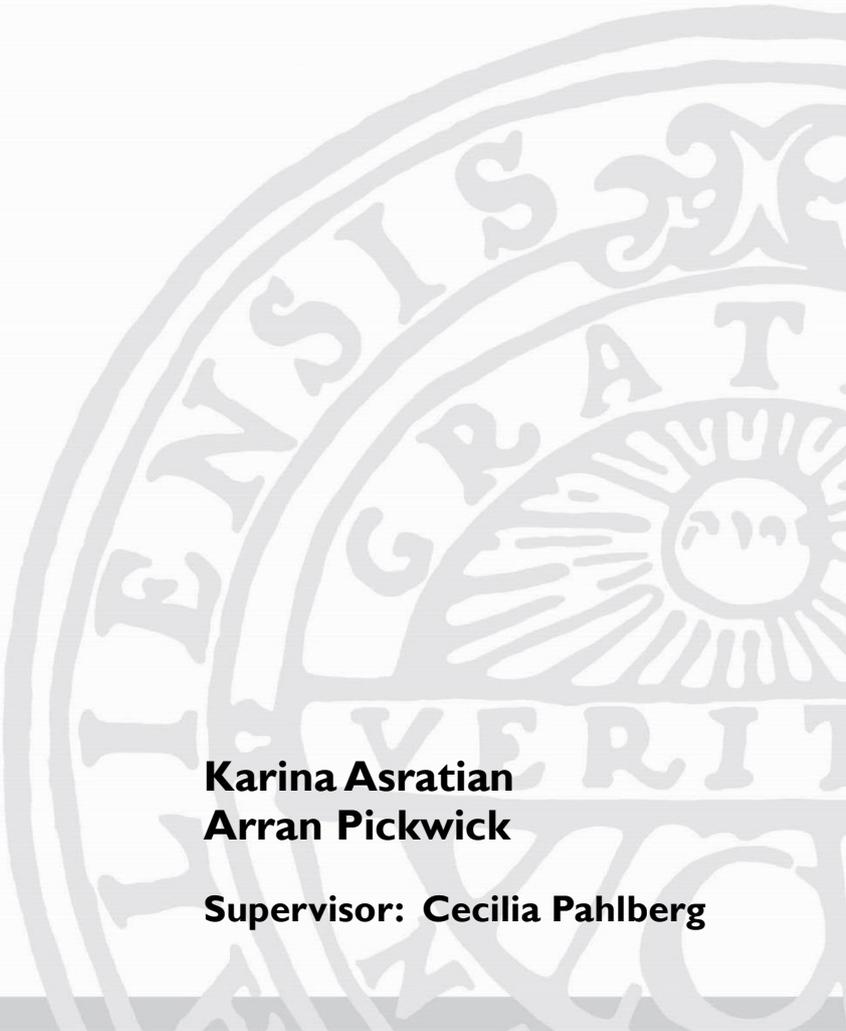




# The Impact of Corruption on Swedish Firms Operating in Russia

Master's Thesis 30 credits  
Department of Business Studies  
Uppsala University  
Spring Semester of 2020  
Date of Submission: 2020-06-03



**Karina Asratian  
Arran Pickwick**

**Supervisor: Cecilia Pahlberg**

# Abstract

This study informs on the ways in which Swedish multinational companies (MNCs) operating in Russia perceive and respond to the corruption they face whilst operating there, coming from a home country with a low level of corruption, Sweden, in relation to Russia, a country with a high level of corruption. The study uses a qualitative research method, conducting semi-structured interviews with six senior executives from Swedish MNCs that have, or are currently working in Russia for the Swedish firm. The study informs on the forms and processes of corruption in Russia, and informs on not only how this impacts the operations of Swedish firms operating there, but also the measures they take to respond to this. The results indicate that corruption is widespread in Russia. Swedish MNCs saw bribery, state sector operations, and subcontractors as some of the areas where corruption was particularly prevalent. Swedish MNCs perceive corruption in Russia as inevitable and a liability of foreignness, permeating many aspects of operations in Russia. An overarching theme throughout the interviews and analysis was the notion of Swedish firms in Russia trying to find a mid-ground by balancing the demands of the HQ with the demands of the Russian business environment. Additionally, Swedish MNCs saw education, personnel policy, regulations and networking as some of the key areas for responding to corruption. The study contributes to existing knowledge of corruption, and specifically corruption in Russia, and contributes not only knowledge of Swedish firms operating in Russia, but of firms originating from countries with a low level of corruption operating in countries with a high level of corruption in general.

**Keywords:** Corruption, Host Country, Home Country, Political Risk, Russia, Sweden, MNC, Network, Culture

# Acknowledgements

Writing this thesis would not have been possible without the support we have received from each other and from those around us. We would like to thank our supervisor Cecilia Pahlberg for the invaluable support and guidance throughout the process of writing this thesis as well as our opponents for their vital input and participation. We would also like to give our utmost gratitude to our informants for their vital contribution to this study.

Thank you.

*Karina Asratian & Arran Pickwick*

# Table of Contents

1 INTRODUCTION .....	1
1.1 Problem Statement .....	3
1.2 Purpose and Research Questions .....	4
2 THEORETICAL BACKGROUND .....	5
2.1 Defining Corruption .....	5
2.2 Theoretical Perspectives .....	6
2.2.1 Principal-Agent Theory .....	7
2.2.2 Game Theory .....	8
2.2.3 Social Exchange Theory .....	9
2.2.4 Collective Action Theory .....	10
2.2.5 Neo-Institutional Organization Theory .....	11
2.3 Previous Empirical Studies .....	12
2.4 Cultural Dimension .....	13
2.5.1 Business Network Theory .....	15
2.5.2 Informal Networks & <i>Blat</i> .....	15
2.6 Theoretical Framework .....	16
3 METHODOLOGY .....	19
3.1 Research Design .....	19
3.2 Data Collection .....	19
3.2.2 Selection of Interview Informants .....	20
3.2.3 Sampling .....	21
3.2.4 Description of the Interview Informants .....	22
3.2.5 The Interview Process .....	23
3.2.6 Data Analysis .....	25
3.3 Research Quality .....	25
3.4 Ethical Considerations .....	26
4. RESULT .....	27
4.1 Perception of Corruption .....	27
4.1.1 Cultural Differences .....	28
4.1.2 Trust Issues .....	29
4.1.3 Relationships & <i>Blat</i> .....	29
4.1.4 State Sector .....	30
4.1.5 Small Firms & Subcontractors .....	30
4.1.6 Liability of Foreignness .....	31
4.1.7 Bribery .....	32

4.2 Response to Corruption .....	32
4.2.1 Duality Pressures .....	32
4.2.2 Importance of Regulations .....	33
4.2.3 Business Model & Network .....	34
4.2.4 Industry Context .....	35
4.2.5 Personnel Policy & Education.....	35
5 DISCUSSION.....	37
5.1 Principal-Agent Theory .....	37
5.2 Regulations & Education as Collective Action.....	38
5.3 Game Theory & Trust Issues .....	38
5.4 Neo-Institutional Organization Theory .....	39
5.5 Culture.....	40
5.6 Informal Networking.....	41
5.6.1 Exclusion from Informal Networks.....	41
5.6.2 Inter-Organizational Informal Networking .....	41
5.6.3 Social Exchange Theory in Informal Networks .....	42
5.6.4 Business Network Theory.....	42
6 CONCLUSION .....	44
6.1 Limitations of the Research .....	45
References .....	47
Appendix .....	53

# 1 INTRODUCTION

When the value of a company and its income can be affected by the actions of corruption, it is considered to be a political risk (John & Lawton, 2018). For multinational companies (MNCs), this means that corruption, being a political risk, in the countries in which they operate, can have a direct impact on their operations, such as reducing income or obstructing business strategy (ibid). Jones and Comunale (2018) stress that political risk in multinational companies has become an increasingly prevalent topic in the 21<sup>st</sup> century. This means that political risk is an issue that has increased greatly in the last decade for multinational enterprises, making it a very relevant and current issue to academics and managers alike. Furthermore, increased globalization has resulted in the growth and spread of the operations of multinationals across the world whilst simultaneously contributing to increased problematic issues of corruption (Karhunen & Ledyeva, 2012).

In the case of political risk in Russia, this has largely become an issue for western firms only at the end of the 20th century, with the dissolution of the Soviet Union, and the opening of the Russian market to Western businesses (Åslund, 1991; Gros & Steinherr, 2004). With a GDP of 1.637 trillion US dollars in 2019, Russia is the 11th largest economy in the world (IMF, 2019). As the second-largest emerging economy, after China, Russia is targeted by foreign investment as a strong potential business opportunity with great prospects for economic growth (Kusznir, 2016).

Russia is attractive to foreign investors largely because of its highly educated, yet cheap labor force, and tremendous amounts of natural resources such as oil, metals, and natural gas (Ernst & Young, 2013). In 2016, Russia saw a growth in foreign direct investment (FDI), with the European Attractiveness Survey (2017) recording Russia as having the seventh-highest FDI rate in Europe, with 205 FDI projects. This is the highest number of projects recorded since the survey began (Ernst & Young, 2017). However, in recent years, the Russian economy has slowed. Russia's economic growth has fallen to 4.2% in 2019 and is predicted to continue to fall to as low as 1.9% in 2020 (IMF, 2020). Despite this, due to the aforementioned benefits of the Russian market, Russia persists as a large, attractive market for foreign investment. Russia has further been ranked as the 137th country, of 180, in terms of corruption in the world, revealing a high corrupt climate in Russia (Transparency International, 2019).

Since the years running up to the dissolution of the Soviet Union in 1991, its successor state, the Russian Federation has opened itself up to increased foreign trade, with not only Western nations, but the rest of the world (Gros & Steinherr, 2004). However, Russia has continued to have hostile relations with western nations and the European Union, as well as political risks, especially corruption (Liuhto, Heikkilä & Laaksonen, 2009). This is further exacerbated by recent political changes in Russia brought about under Vladimir Putin's presidency (Liuhto, Heikkilä & Laaksonen, 2009), such as increasing economic nationalism (Kusznir, 2016). Putin has identified, in addition to foreign investment, state regulation as of key importance (Liuhto, 2008). Foreign firms may face significant barriers if they attempt to compete with a state-run company, as larger-scale business operations often depend on state contracts (Kusznir, 2016). Despite this, businesses originating in western-aligned nations such as Sweden have taken the opportunity to enter the Russian market, however, they have faced many issues, such as corruption, when operating in Russia (Kusznir, 2016).

Corruption is currently the main political risk and central economic issue in Russia and has been an infamous issue of the country for a long time, making it one of the largest and most serious issues facing the government (Kleiner, 2012). Corruption, in turn can take forms such as bribery, organized crime, and human rights issues (Liuhto, Heikkilä & Laaksonen, 2009). A public opinion survey in Russia even presented corruption as being an everyday fact of life, turning it to a daily phenomenon (Kleiner, 2012). Some would regard the ambition of Putin to strengthen the state to be the cause of the rising corruption in Russia (Ionescu, 2011). GAN Integrity (2017) stated in their Russia Corruption Report that corruption, commonly in the form of bribery and facilitation payments, is a huge obstacle for businesses operating in Russia, where problems such as lack of transparency and inconsistent application of laws is highly present. Companies operating in Russia find that corruption significantly impedes their business, often having to deal with bribes and irregular payments (GAN Integrity, 2017). Investigators for the Transparency International-Russia even concluded that hiring a friend of President Vladimir Putin to your business, will significantly help increase its success (Shleynov, 2017).

Corruption can sometimes take the form of organized crime, which is closely merged with the political system (Abramova, 2007). This can be observed by criminals seeking to access control through, amongst others, authorities, or corrupt politicians (Holmes, 2008). These organized crimes have, in the last decade, risen almost ten times more from 3500 to 33000, demonstrating the seriousness of the issue (Abramova, 2007). Due to high

levels of corruption in Russia, an environment that facilitates organized crime is established, creating a complex business environment for companies operating in Russia (Galeotti, 2018).

As Russia being the second-largest emerging economy in the world, the interests of FDI's has increased mainly by developed countries (Karhunen & Kosonen, 2013). However, due to emerging countries often being high-corrupt countries while developed countries are usually low-corrupt countries with high corruption control, this poses an issue of contradiction in morals and ethics from low-corrupt countries companies, operating in emerging economies (ibid). The response from a company to either reject or comply with corrupted pressures from the host country can result in either serious damage or benefits such as competitive advantage (ibid), making the way companies handle corruption a very interesting topic.

On top of this, Russian legislation has a wide freedom of interpretation whilst also providing the government with the power of closing down businesses, facilitating the abuse of corruption (Karhunen & Ledyeva, 2012). For example, an inspector could demand a company to acquire a system or product that just happens to be from the company of a relative of the inspector, or authorities can purposely search for errors in foreign companies to delay procedures, which are recurring events in Russia (ibid). Furthermore, Russia has faced accusations of detaining and abusing businesspeople for exposing corruption, and there are reported incidents of corrupt officials and criminals threatening businesspeople with false charges for various reasons (Kusznir, 2016). These cases present extremely hostile conditions to any business operating in Russia, both foreign and domestic in origin.

## **1.1 Problem Statement**

The traditional view of political risks is to avoid them in order to avoid negative impacts (John & Lawton, 2018). However, John and Lawton (2018) stress that multinational companies should not avoid political risk, but instead try to manage them effectively. If companies can successfully manage corruption, they have the possibility to reduce corruption and potentially transform it into competitive advantage or opportunity (ibid). If not managed, however, the results of corruption can have major negative impacts on multinational firms (ibid). This shows the importance of companies understanding how to manage corruption for the negative impacts to be reduced, and for potential benefits to arise.

The issue of companies originating from countries with low levels of corruption doing business in countries with high levels of corruption has seen a significant increase in interest recently, mainly because of growing interest in emerging economies (Karhunen & Kosonen, 2013). A combination of emerging economies mostly containing highly corrupt countries and developed countries adapting stricter controls against corruption makes the issue more complex, and even more important to research (ibid). Furthermore, previous studies regarding corruption have largely focused on entering highly corrupt countries (Karhunen & Kosonen, 2013), however, many companies who have been operating in Russia for some time may still face a variety of challenges that must be addressed. This presents a research gap regarding companies already operating in highly corrupt nations, posing an opportunity for us to investigate this, with the hope of filling this gap. As Sweden is one of the least corrupt countries in the world (Transparency International, 2019), with a population that demonstrates very low acceptance to corruption (Makarova, 2018), the companies from this country pose a very good opportunity for this research, as they are from a low-level corrupt country. This research can further be applied to cases of firms from other low-level corruption countries operating in other high-level corruption countries, contributing to existing knowledge of how they can optimize their operations in corrupt environments. Furthermore, this study contributes to existing knowledge by informing on how corruption is perceived and responded to in the present day in Russia.

## **1.2 Purpose and Research Questions**

Due to the difficulties that come along with corruption, and with Russia being a high-level corrupt country, as well as an attractive country for foreign investors, the purpose of this study is to investigate how Swedish companies perceive and respond to corruption when operating in Russia. This led to the formulation of the following research questions:

*How do Swedish MNCs perceive corruption in Russia when operating there?*

*How do Swedish MNCs respond to corruption in Russia?*

## 2 THEORETICAL BACKGROUND

*The section will begin with defining corruption and then presenting an overview of the two key theoretical angles that academics take on corruption, before presenting different theories regarding corruption. This will be followed by a review of relevant previous studies and literature. Lastly, the section will be concluded by developing a model to summarize the theoretical background.*

### 2.1 Defining Corruption

Bonell and Meyer (2015) stress that there is no worldwide definition of corruption, instead, there are numerous definitions and understandings. The term is an ancient phenomenon, running back almost 2000 years ago, and today, there is an infinite amount of situations that could be described as corrupt (Bonell & Meyer, 2015). This means that corruption can take on a multitude of shapes, and range in magnitude (Campos & Pradhan, 2007). However, Transparency International (2018) attempts to define corruption as “*the abuse of entrusted power for private gain*”. This can be regarded as an arrangement where an exchange occurs between a so-called, “demander” and “supplier” (Macrae, 1982). In the arrangement, one party possesses an influence on the allocation of resources, giving that party power (ibid). Previously, corruption was often defined as “*the abuse of public power for private benefit*”. This definition has been used in many contexts, including by the World Bank, amongst others (Abed & Gupta, 2002). However, this definition only serves for public situations, limiting the use of it in private contexts (ibid). Therefore, in this paper, we will regard corruption as the abuse of entrusted power for private gain.

In international trade, corruption is viewed as the main obstacle for economic development, making it an issue far too big to only be regulated by criminal law (Bonell & Meyer, 2015). Instead, other branches of law should be involved in the anti-corruption movement (Bonell & Meyer, 2015). A study made by the World Bank, found that each year, \$1 trillion are paid in bribes, and the total cost of doing global business rises by 10%, solely because of corruption (Bonell & Meyer, 2015). Furthermore, corruption is accountable for deterring FDI, creating political instability, and contributing to fundamental challenges to democracy (Zeneli, 2015).

Despite the negative view on corruption and its negative connotation, some argue for positive effects resulting from corruption (Broeders & Hakfoort, 1999). The authors stress

that there are some side-effects of corruption that are considered beneficial. For example, the biggest argument in trying to justify corruption is the fact that it leads to a more efficient economy (ibid). This is because the highest bribes will be paid by the most efficient companies, making corruption act as a corrective mechanism (ibid). Furthermore, Broeders and Hakfoort (1999) stress that corruption can also reduce the uncertainty of investments due to the reduction of bureaucratic obstacles that come along with corruption. This can also be explained as corruption being either “grease” or “sand” in the wheel, where corruption as “grease” can help circumvent bureaucratic obstacles, while corruption as “sand” impedes the business possibilities (Karhunen & Ledyeva, 2012). However, when corruption is present and facilitates market entry and accessing the market, fair players that do not engage in corruption are prevented and excluded from the market (Bonell & Mayer, 2015). This presents honest companies with a dilemma. When they cannot acquire market share through fair play, they face the choice of either retreating from the market or engaging in corruption and bribery in order to survive (ibid).

When trying to theoretically frame a complex concept such as corruption, it is important to take a wide variety of perspectives, as a one-dimensional view of corruption may be limiting. Whilst in management studies, corruption is largely discussed in a negative context, anthropologists take a more balanced perspective (Torsello & Vernard, 2016). Furthermore, anthropologists largely reject the approach taken by management scholars, viewing it as limiting in the fact that management scholars frequently attempt to define corruption as a concept too strictly, developing somewhat narrow typologies when trying to analyze corruption (Torsello & Vernard, 2016).

## **2.2 Theoretical Perspectives**

When developing theory on corruption, there are two key theoretical angles that academics take. The first is economic theory, the dominant theory of which is the Principal-Agent Theory (Lawler & Hipp, 2010). Here, the focus is placed on the transactional process occurring between corrupt actors, and what drives these individuals to behave in this way (Lawler & Hipp, 2010). The second angle is the sociological perspective, which seeks to explain corruption by analyzing the wider factors of how corruption becomes endemic and sustained over an extended period in certain environments, as well as how corruption may become somewhat of a societal norm (Lawler & Hipp, 2010). Anthropologists believe that

sociological theory provides more flexibility to study these other factors that allow corruption to take place and become widespread, than the stricter definitions offered by management scholars focusing on economic theory (Torsello & Vernard, 2016). With this in mind, the present study will seek to frame corruption by discussing and integrating both schools of thought, as each offers a uniquely valuable perspective.

### **2.2.1 Principal-Agent Theory**

In many contexts, individuals can be found to act primarily in their own interests, making decisions that benefit themselves over others. It is often that these motives drive individuals in organizations to engage in corruption (UNODC, 2019). In Principal-Agent Theory, two key roles are identified- the agent and the principal (Ross, 1973). The agent is responsible for acting and decision making for the interest of the principal (Ross, 1973). In a public sector context, for example, this may take the form of a public official, who is employed to serve the government or the public, making decisions to benefit themselves, to the detriment of the principal (UNODC, 2019).

When applying this theory specifically to corruption, Groenendijk (1997) presents a principal-agent model where one corrupted agent is serving two principals, one of which is acting legitimately, whilst the other is corrupting the agent. In this context, the agent is faced with a decision, based on costs and benefits. In Groenendijk's (1997) model, if the payoff offered by the corrupting principal is better for the agent, the agent may make the choice to engage in corruption. In the original principal-agent model, the principal has the opportunity to control the payoff rules between them and the agent (Ross, 1973). However, it is vital that this is done effectively, as the model makes the assumption that the interests of the agent and principal will ultimately differ to some degree (Groenendijk, 1997). Additionally, in the model there is information asymmetry in favour of the agent. Because of this, if the payoff is greater for a choice involving corruption, this may lead to the agency problem occurring, where, by using this advantage of information asymmetry, the agent acts against the interest of the principal, to their own benefit (UNODC, 2019).

### **2.2.2 Game Theory**

While Principal-Agent Theory can be used to explain the process and dynamic of corruption in organizations (Groenendijk, 1997), and how it takes place, Game Theory serves to explain in more depth the decision-making process by which individuals make these decisions. Game Theory is an economic theory that explains individuals as making choices based on incomplete information, as the individual is unable to determine the choice that other individuals will make (Samuelson, 2016). This results in both parties making decisions which minimize harm, but do not provide the optimal payoff, were they both given the opportunity to collude when making a decision (Samuelson, 2016). This in turn results in what is known as the Prisoner's Dilemma, whereby the rational actors involved in the decision-making game both achieve sub-optimal outcomes due to acting in self-interest (Kuhn, 2019).

When applying this theory to corruption, Macrae (1982) highlights the importance of incomplete information, whereby an individual may engage in corruption in anticipation of other individuals doing so, in order to avoid losing out on a reward from corruption that another person may gain over them. Furthermore, Macrae (1982) similarly highlights incomplete information as a reason why individuals may engage in corruption through informal 'agreements', so they may make informed decisions through collusion.

If the individual is operating in an environment where corruption is normalized or expected, they will be far more likely to engage in it, as it will be expected that rivals will seek an advantage over them from corruption. As a result, corrupt practices are maintained. This can explain why individuals with intentions to act ethically may ultimately engage in corruption if this is the 'norm' in the environment they are operating in, such as developing economies (Macrae, 1982).

When devising a Game Theory model which explains the rationale behind corruption (See fig 1.), we theorize that a foreign firm that refuses to engage in corruption, whilst its' Russian counterparts do so, will be at a significant loss. Similarly, due to the prevalence of corruption in Russia, if these two competing firms, one Russian and one foreign, both refuse to engage in corruption, they will be at a greater loss than if they did engage in corruption. This is based on the premise that other actors will be engaging in corruption regardless. Therefore, in an environment where corruption is endemic, opting to engage in corruption is the optimal solution for all parties. This is illustrated in Figure 1 below:

		Russian Firm	
		Engage in Corruption	Don't Engage in Corruption
Foreign Firm	Engage in Corruption	20, 20	25, 5
	Don't Engage in Corruption	5, 25	10, 10

*Fig. 1: Game Theory Model for Corruption in Russia*

There is clearly an environmental, and possibly cultural element to the phenomenon of corruption as explained by Game Theory. This poses a significant strategic threat to Swedish companies operating in Russia. These firms come from a nation with one of the lowest corruption indexes in the world (4th of 180 countries), whilst Russia has one of the highest (137th of 180 countries) (Transparency International, 2019). We can identify two risks here. The first risk is the potential for Swedish firms in Russia to engage in corruption. As corruption is the ‘norm’ in Russia (Kusznir, 2016), they may fear a strategic loss if they behave ethically when competing with Russian firms who engage in corruption. The second risk is the potential competitive advantage firms in Russia will have over Swedish firms if they do not engage in corruption.

### **2.2.3 Social Exchange Theory**

Social Exchange Theory is a theory in psychology and sociology that focuses on the way individuals interact with each other, and how they are seeking to maximize benefit and minimize cost from this interaction- both parties are seeking the most desirable outcome for themselves (Brown, 2000). Whilst Principal-Agent Theory explains the transaction-based interaction between corrupt individuals (Groenendijk, 1997), Social Exchange Theory seeks

to explain corruption through both an economic, transaction-based perspective, as well as a social perspective (Lawler & Hipp, 2010). The theory does this by focusing on the relationships (Brown, 2000), between the individuals involved in corruption, emphasizing the social networks that exist among corrupt actors (Osifo, 2018).

By engaging in corruption in the long term, corrupt individuals must continue to collaborate in order to protect themselves from the ramifications of exposure, preserving their secrecy and protecting from whistleblowers (Lawler & Hipp, 2010). Thus, the corrupt collaborators' interests become homogenous to some extent (ibid). Such phenomena can partially explain how corruption pervades in environments where it is already established as an endemic norm. Furthermore, small scale corruption can be used to facilitate social exchanges, as can be seen in the Chinese concept of *guanxi*, stressing the importance of personal networks and connections in business (Torsello & Vernard, 2016). In Russia, this draws parallels to *blat*, the informal networks of exchange and 'favours' that are common in Russian society (Ledeneva, 2008). The concept of *blat* will be further expanded on in section 2.5.2 of the present study.

## **2.2.4 Collective Action Theory**

When studying corruption, academics in different disciplines have taken a variety of different approaches. Management scholars have sought to explain corruption through Principal-Agent Theory (Groenendijk, 1997), and psychologists have sought to explain it through Social Exchange Theory (Lawler & Hipp, 2010). Anthropologists have explained the prevalence of corruption through Collective Action Theory (Persson, Rothstein & Teorell, 2013). Collective Action Theory differs from Principal-Agent Theory by focusing on corruption in settings where it is widespread as a collective action, also requiring collective action for it to be remedied (UNODC, 2019). Proponents of the theory highlight the limitation of Principal-Agent Theory focusing exclusively on a relationship between a principal and an agent in the corruption process, as this fails to account for settings where corruption is widespread, indicating a more structural problem (Persson, Rothstein & Teorell, 2013).

In Collective Action Theory, we again see the phenomenon of individuals perpetuating a corrupt system by conforming to the norm of corrupt behaviour, to avoid being the only non-corrupt individual in the system (Persson, Rothstein & Teorell, 2013). Therefore, anti-corruption measures derived from the Principal-Agent Theory cease to be effective, and

collective action is required on a large scale amongst many actors, as individuals will perceive even the principals in the model to be corrupt (UNODC, 2019, Persson, Rothstein & Teorell, 2013).

In Collective Action Theory, we see a specific focus on the importance of social norms, where the individuals navigating an organization or social structure where corruption is common are pressured to engage in corruption themselves (Persson, Rothstein & Teorell, 2013). One of the main reasons norms are enforced within groups is to maintain the survival of the group (Feldman, 1984). Therefore, the power and influence of social norms in the prevailing of established corruption must not be underestimated. Environments where corruption is prevalent are often risky, with potential ramifications of exposure (Lawler & Hipp, 2010). Social norms can prevent individuals who are in an environment where corruption is the norm from switching to a more positive behaviour, as well as having encouraged them to become engaged in corruption in the first place (Scharbatke-Church & Chigas, 2019).

### **2.2.5 Neo-Institutional Organization Theory**

Whilst social norms in groups can account for conformity to corrupt behaviours on an individual level, when looking at Swedish MNCs operating in Russia as entities, a more macro perspective must be taken when looking at the organization. In order to investigate the consequences of dual institutional pressures from both internal and external pressures, the neo-institutional organization theory can be considered. (Karhunen & Kosonen, 2013)

The Neo-Institutional Organization Theory seeks to understand the interaction between organizations and the institutional environments in which they operate. Internal pressures are pressures from the home country, while external pressures are pressures from the host country. The internal pressures on companies from a low-corruption country put pressure on their subsidiaries in a highly corrupt host country to act honestly, while the external pressures put pressure on them to engage in corruption. The theory claims that companies conforming to external pressures, such as corruption, is mainly due to them seeking legitimacy from their environment which causes them to comply. As dual institutional pressures infer that the pressures are conflicting, subsidiaries fail to comply with both internal and external pressures, leading to the rejection of one of them and compliance with the other. (Karhunen & Kosonen, 2013)

## 2.3 Previous Empirical Studies

A qualitative study was conducted by Karhunen and Kosonen (2013) where they examined the strategic responses of foreign subsidiaries from low-level corrupt home countries in highly corrupt host countries. By retrieving empirical evidence from a database, resulting in 32 interviews from 27 companies ranging from small to large, the researchers could access transcripts from interviews with Finnish executives operating in Russia representing Finnish companies. The study found that larger firms have more internal pressure to avoid corruption that applies to foreign subsidiaries as well, whilst subsidiaries of smaller companies revealed more pliancy to external pressures. However, the study concluded that the rejection of external pressures often leads to competitive disadvantage, slow administrative processes, and delays, which in turn will be very costly for firms. Many firms, therefore, are pressured to comply to some extent with external institutional pressures for survival.

Furthermore, the compliance of smaller firms to external pressures does not necessarily suggest they are engaging in corrupt activities. On the contrary, the study found that these firms often deal with institutional duality by ceremonial adaptation, meaning that relations with potentially corrupt partners are outsourced through a local manager or partner. By doing so, Finnish companies operating in Russia can comply with both internal pressures by not personally engaging in corrupt activities, whilst simultaneously complying with the local business environment and external pressures (Karhunen & Kosonen, 2013). Another study made by Karhunen and Ledyeva (2012) found ceremonial adaptation to be encouraged in Russia when there was a high corruption distance between the host country and the home country.

The study concluded that in order for firms to operate transparently in highly corrupt host countries, it is vital that companies have enough financial resources that can make up for financial losses that come along with rejecting external pressures. The institutional duality puts companies in a dilemma. They can either choose to reject external pressures, which in turn becomes costly and also a competitive disadvantage, or to comply with the external pressures, which instead leads to short-term benefits, but also involves a loss of reputation in the home country, as well as potential financial and legal consequences. Their research found that to avoid corruption, businesses can strive to establish a well-connected network with authorities, or prefer other foreign firms as partners. (Karhunen & Kosonen, 2013)

When comparing the neighbouring countries Finland and Sweden, there are many similarities, ranging from geographical to governmental and economic (Index Mundi, 2019).

Both countries have governmental constitutions with parliaments. The legislative branch is also very similar and the civil law system of Finland is, in fact, based on the Swedish model. Furthermore, from an economic standpoint, both countries represent a free market with a highly competitive economy, with the same exports, such as telecommunications, chemicals, papers, and pulps (Index Mundi, 2019). In regards to corruption, Finland and Sweden are both on the top 4 of the Corruption Perception Index 2019 of Transparency International (2019), where Finland is ranked as 3<sup>rd</sup> out of 180 and Sweden as 4<sup>th</sup> out of 180 as least corrupt countries. Due to these strong similarities between Finland and Sweden, we can assume that the same results from the study of Karhunen and Kosonen (2013) could potentially also be applied to Swedish companies.

## **2.4 Cultural Dimension**

In the attempt to determine the drivers of corruption, social and cultural conditions have been addressed as important variables (Achim, 2016). Studies have shown that corruption is strongly connected with culture, and that cultural values indeed either foster or inhibit corruption (Husted, 1999). Culture can affect how the act of bribery is viewed, for example (ibid). This can be further reinforced by the results of a study made by Fisman and Miguel (2007). In their study they examined diplomats in Manhattan from 149 countries and their parking habits in regards to their diplomatic immunity. They found that diplomats from corrupt countries engaged in significantly more parking violations than diplomats from less corrupt countries, suggesting that cultural values have an impact on corruption (Fisman & Miguel, 2007). It is estimated that half of the level of corruption within a country is a direct consequence of national culture (Achim, 2016).

In Fisman and Miguel's (2008) book, they further present their findings, stating that no Swedish diplomat has accumulated a single unpaid parking violation, which could suggest a correlation between culture and corruption. Although it is stated that there is "noise" in studies of correlations between culture and corruption, it was presented that diplomats from countries with low tolerance towards corruption engaged far less in parking violations than diplomats from highly corrupt countries. Corruption can be far rooted in the culture, making it even harder to abolish. (Fisman & Miguel, 2008)

From an ethical standpoint, it therefore becomes clear that countries with high levels of corruption ethically and morally justify corruption more often than countries with low levels of corruption. It is argued that criminal behaviour derives from individuals being exposed to a pervasive presence of criminal behaviour, and eventually learn to view this behaviour as normative (Cheloukhine & Haberfeld, 2011). In Russia, due to the high levels of corruption, society has learnt to view these criminal activities as normal business practices, demonstrating an obstructed ethical view on corruption and immorality as a norm (ibid). To some extent, what cultures define as corruption may play a part. Societal norms may extend beyond the mere acceptance of corruption, to the point where some actions that may be viewed as corruption in Sweden may not even be perceived as corruption at all in Russia. Furthermore, the moral values in Russia have been substituted and demoralized among businesspeople (Cheloukhine & Haberfeld, 2011). Criminal activities may be perceived as normative, but breaking a promise is considered highly immoral (ibid). The betrayal of someone on a personal level is regarded as highly immoral, compared to criminal activities, demonstrating corrupt moral and ethical standards in Russia (ibid).

While Russia scores low on the Corruption Perception Index, Sweden scores very high ranking as 4th, as noted before, displaying that Sweden is one of the countries in the world with the lowest level of corruption (Transparency International, 2019). This can be directly correlated with the high level of public trust in Sweden, with Sweden also being, together with Denmark, the most trusting country in the EU (Makarova, 2018). Swedish citizens also demonstrate very low acceptance to any kind of corruption in surveys, and 85% would even consider handing a gift to a public official completely unacceptable (ibid). The problem, however, arises when doing business internationally in the developing world, therefore contrasting with ethical considerations. Sweden has presented itself as a good example, where public, private, and civil society agents collaboratively join to fight corruption (ibid). For companies, they implement codes of conduct and rules of ethical behaviours to prevent ethical issues (ibid). Furthermore, in an attempt to combat corruption, Sweden has several anti-corruption organizations all working to maintain and promote anti-corruption business ethics within companies (Makarova, 2018).

### **2.5.1 Business Network Theory**

Ford and Mouzas (2013) refer to business networking as a process where an actor, be it an individual, or a firm as an entity, is seeking to develop or alter the relationships and the ways in which it interacts with other actors. Business networks can refer to a multitude of relationships, and we can distinguish between relationships held between a particular firm and five key actors; the firm itself, customers, suppliers, competitors and non-business infrastructure (D’Cruz & Rugman, 1994). Non-business infrastructure consists of governments and other network partners, such as trade unions and educational institutions (ibid). As for customers, suppliers, and competitors, these exist as part of traditional business interaction (ibid). A firm’s networks can provide it with both legitimacy from the perspective of an outward observer, as well as resources such as knowledge, capabilities, technology, and information that would otherwise not be available to the firm (Grant, 2016).

### **2.5.2 Informal Networks & *Blat***

In the context of corruption, an informal network refers to the connections and relationships between individuals who collaborate in corruption together (Osifo, 2018). Networks frequently involve cooperation and exchange, and can vary in both formality and tightness of structure (Khomeini, 2016). In Russia, we see hidden networks of corruption, which, in a business context, takes the form of money laundering, exploitation, and tax evasion (Osifo, 2018). Informal corrupted networks of this type are known as *blat* in Russia- taking the form of exchanges and informal agreements through relationships and connections (Ledeneva, 2008), drawing parallels to the Western notion of ‘old boy networks’ (Osifo, 2018).

*Blat* was particularly common in the Soviet Union, but persists to the present day, involving the exchange of not only gifts, originating from the scarcity of commodities in Soviet times (Ledeneva, 2008), but also of ‘favours’ (Ledeneva, 2009). The Russian concept of *blat* originated under the circumstances brought about by the socialist regime of the Soviet Union, emerging as a way for the people of Soviet Russia to meet each other’s needs that were not being met under the socialist system (ibid). Ledeneva (2009) gives an example of *blat*, described as a paradox of socialism, “The shops are empty but the fridges are full”. In modern Russia, elements of this culture of favours and gift exchange have pervaded, but exchanges have now taken a more monetary form, amongst other changes (ibid), reflecting the political and economic changes Russia has experienced since it became a market economy. In modern

Russia, *blat* can take the form of bribery, avoidance of rules and policy, general favours and problem-solving (ibid).

Swedish companies doing business in Russia may be at a disadvantage when trying to navigate these informal networks, with the notion of in-group bias (Brown, 2000) and allegiance to established relationships (Lawler & Hipp, 2010) meaning that Russian organizations and the individuals within them may favour those within their established network over foreign companies in certain instances. Ledeneva (2009) highlights distrust in public institutions as the cause of the prevalence of these informal networks, both within Russia and other regions with high levels of corruption.

## **2.6 Theoretical Framework**

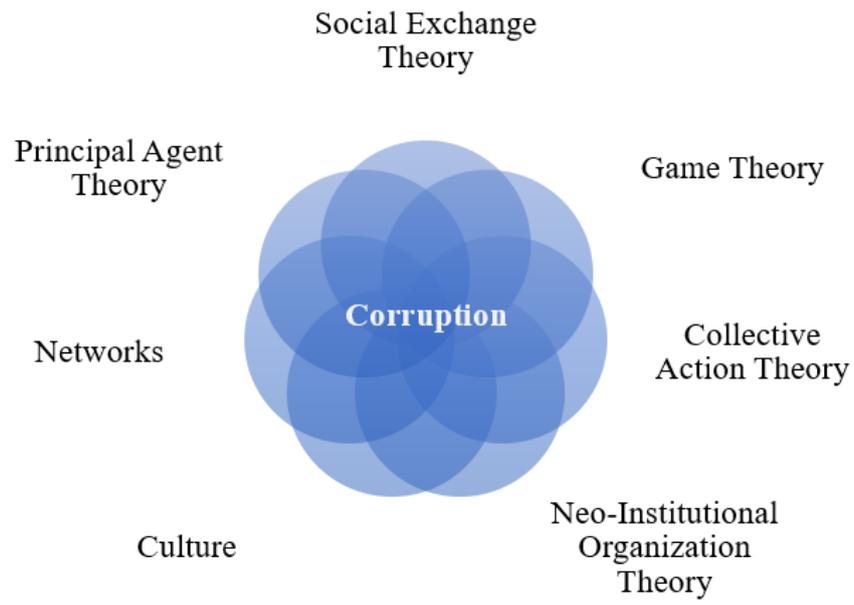
Based on all the theories, previous studies, and literature, clear patterns appear throughout all of them- corruption is done either by a selfish act of self-gain or as a consequence of corruption becoming a societal norm. However, by combining the theoretical framework, we are able to capture corruption on a deeper level, enabling us to answer our research question better.

Social Exchange Theory stresses that individuals seek to maximize benefit and minimize cost (Brown, 2000), however, from a game theory perspective, this can be further elaborated by individuals making choices based on incomplete information (Samuelson, 2016). This means that not only does corruption involve individuals seeking to maximize benefit and minimize cost, but also seeking to minimize harm that could be the result of another actor's decision, and thereby engaging in corruption solely because of the anticipation that the competitor might do so. Furthermore, Collective Action Theory suggests that individuals perpetuate a corrupt system by conforming to the norm of corrupt behaviour, to avoid being the only non-corrupt individual in the system (Persson, Rothstein & Teorell, 2013). In accordance with Neo-Institutional Organization Theory, companies will seek to comply with corruption in high-level corrupt countries due to them seeking legitimacy from their environment (Karhunen & Kosonen, 2013).

From a cultural standpoint, criminal behaviour derives from individuals being exposed to a pervasive presence of criminal behaviour, and eventually learning to view this behaviour as normative (Cheloukhine & Haberfeld, 2011). As culture is a high driver for corruption,

combined with the high levels of corruption in Russia, Russia has developed a norm of corruption (Cheloukhine & Haberfeld, 2011). Since corruption is a cultural norm in Russia, this could mean that companies will comply with the norm of corruption to achieve legitimacy from the environment, or because the high exposure of corruption has led foreign companies to view corruption as normative. Within environments where corruption becomes normalized, we see the development of informal networks, such as those seen in the '*Blat*' concept. From the perspective of Social Exchange Theory, this becomes a structural problem in the long term, whereby individuals continue to protect each other within these informal networks, due to having shared interests in maintaining secrecy (Lawler & Hipp, 2010). This draws parallels to Collective Action Theory, explaining how individuals collectively act to maintain these corrupt norms.

Based on the theories and factors we have presented in this section, we have developed a model to summarize our theoretical framework (see figure 2). We believe that no singular theory or factor details corruption in its entirety, nor do any of these theories or factors exist independently of all others. Each of the theories discussed above highlights different elements of corruption, or approaches it from different perspectives or schools of thought. Conversely, many of the theories intersect each other on some topics, and relate to each other in different ways. Thus, the framework below depicts the notion of each theory or construct (represented by a circle) intersecting with other theories due to their likenesses. The circles of all the theories and constructs converge in the middle of the model, however, to formulate a model of corruption, once the unique elements of these theories are combined.



*Figure 2. A Model of Corruption*

## **3 METHODOLOGY**

*The following section will present the methods that were used throughout this process in order to conduct this research. Research design and strategy will be presented, as well as data collection, interview process, etc. The chapter will conclude with limitations to the research and ethical considerations.*

### **3.1 Research Design**

As this study seeks to examine how Swedish firms perceive and handle corruption in Russia when operating there, and thereby investigate how foreign direct investment from a low-level corrupt home country reacts in a high-level corrupt host country, there is a certain phenomenon to research. Acquiring new insights within a phenomenon makes a study exploratory (Saunders, Thornhill & Lewis, 2012). This aligns with the purpose of this study, making it an exploratory study. In addition to investigating a phenomenon, the study also seeks to contribute to existing literature, making the research approach of the study abductive. An abductive approach involves a dialogical process between empirical data and theories, and seeks to study a phenomenon while simultaneously contributing to existing literature (Bryman & Bell, 2015). As there is existing research on corruption in Russia and its effect on businesses, but limited research on Swedish firms relating to this, we have specified our research into the challenges Swedish firms face and how they perceive and handle them. Further, as the research method for an exploratory study and abductive study is usually a qualitative study (Saunders et al. (2012), this study has used a qualitative method to answer the research question. Since a qualitative strategy gains experiential information and interprets the social world through the eyes of the informants (Bryman & Bell, 2015), the choice of a qualitative research strategy is further strengthened as we aim to understand the world through the eyes of the informants.

### **3.2 Data Collection**

In the initial stage of our research, we started by reading scientific articles, books, collecting information on the internet and reviewing reports made by global organizations such as Transparency International, in order to gain insight and a deeper understanding of our topic. Developing an in-depth understanding of information relating to the research question is a

vital initial step of the process (Saunders, Thornhill & Lewis, 2012). By conducting pre-research, we were able to not only narrow and refine our research question better, but also gain a clearer picture of the information available for our study.

However, primary data was collected by semi-structured interviews. This was done in order for us to fully grasp the informants point of view and experience. Bryman and Bell (2015) stress that semi-structured interviews allow for flexibility, which can lead to a greater understanding of the informant's personal context, and is suited for exploratory studies. Since our topic is highly sensitive, we wanted to give the informants the opportunity to talk freely, yet still direct them towards corruption. This enabled us to investigate deeper in the specific answers that we found most relevant to our research. By having a semi-structured interview, the researcher is not restricted to a preset of questions, providing the opportunity to ask further questions based on the responses given by the informant (Bryman & Bell, 2015).

### **3.2.2 Selection of Interview Informants**

The first stage of selection was to research Swedish companies that have previously, or are currently operating in Russia. We did this by conducting a web search. One valuable source was a list of members of the 'Swedish Chamber of Commerce for Russia & CIS' (2020), which was available on its' website. We then adopted three separate approaches to contact these companies and the relevant personnel. The first approach was to email the companies through email addresses provided in the contact sections of their websites, requesting to be directed to relevant individuals who we could interview. The second approach involved researching who the key individuals were in the Swedish firm's operations in Russia, and contacting those who we were able to find the names and contact details of. In some cases, we were able to acquire email addresses and phone numbers, whilst for others LinkedIn was the approach used to make initial contact to request their participation. The third approach similarly utilized LinkedIn, and involved using LinkedIn to search for employees of the Swedish companies who are, or have been based in Russia. This was done through LinkedIn's search settings, by selecting 'Russia' under 'location'. These individuals sourced through LinkedIn, were then either contacted through LinkedIn's messenger service, via email, or both.

Our criteria for participant selection required participants to be working, or to have been previously working for a Swedish multinational company that operates, or has operated

previously, in Russia. This included both individuals who were working as part of the Russian subsidiary of the Swedish firm, as well as individuals who were based in Sweden or elsewhere, but had significant knowledge or responsibility regarding the firm's Russian operations. As the empirical material is based on the informants, it is crucial to choose them with care (Bryman & Bell, 2015), so we were very careful with who we approached. The only criteria in terms of time span we included was that the individual had been working for the Swedish firm, and had some involvement in the Russian operations since the formation of the Russian Federation in 1991, after the dissolution of the Soviet Union. This time span was chosen as it was deemed to represent the modern era of Russia, there was considerably less opportunity for Western MNCs in Soviet times, and participants who had worked in Russia more recently may have a better memory of their experience than those whose relevant experience was before this period.

We did not have any specific criteria regarding nationality in our selection of participants, however, we had a preference for participants who had experience of working with both the Swedish HQ of the firm, as well as the Russian subsidiary, and in most cases, this involved Swedes, or those who had spent considerable time working in Sweden for the firm. However, this was not criteria for exclusion. All other demographic information was not considered relevant to us, such as age or gender, and was not collected for that reason, as well as to protect the anonymity of the participants.

### **3.2.3 Sampling**

As for sampling, we used a multifaceted form of snowball sampling. The first method we used was more traditional snowball sampling. Snowball sampling refers to a sampling process whereby contact is initially made with a small selection of relevant individuals, and these individuals are then used to find references to other suitable candidates (Bryman & Bell, 2015). Due to the difficulty of finding individuals who met our selection criteria, we deemed snowball sampling to be the most convenient way of accessing a sizable sample (Bryman & Bell, 2015). Due to the lack of availability of a database with information on candidates matching our selection criteria, randomization was not feasible. In this case, snowball sampling is preferred (Bryman & Bell, 2015). We initially contacted individuals who met our selection criteria, however, we also asked them for referrals. Similarly, in the cases where we contacted firms as opposed to individuals, we were asking for referrals to employees who met

our selection criteria in every instance. The same was true for LinkedIn, where we not only requested for participation, but also for referral to individuals in the network of those we made contact with, who met our selection criteria.

Similarly, through LinkedIn we used a form of virtual snowball sampling, whereby we searched through the virtual networks of individuals', via the LinkedIn lists of 'connections' and 'recommendations' relating to these relevant individuals, as well as looking through employee lists of Swedish firms who operated or are operating in Russia, to search for participants. Virtual snowball sampling is a variation of snowball sampling where virtual networks are utilized (Baltar & Brunet, 2012). The key benefits of virtual snowball sampling include the ability to bypass geographical limitations, as well as to source individuals whom researchers may face barriers to access (Baltar & Brunet, 2012). In the case of the present study, many of our participants were based outside of Sweden- in Russia or elsewhere, so utilizing virtual snowball sampling via LinkedIn aided our search in this regard. Similarly, through utilizing this method, we were able to bypass the barrier of corporate bureaucracy we were faced with when contacting candidates via the firms that employ them. We also opted for this method due to increased access to individuals matching selection criteria, as well as the finding that higher response rates due to the sharing of personal information and interests increase candidates' trust in researchers (Baltar & Brunet, 2012).

### **3.2.4 Description of the Interview Informants**

The table below (Table 1) describes the interview informants. The MNCs that the informants worked for operated in the telecommunications, retail, consulting, industrial manufacturing, food manufacturing, and fitness industries.

	<i>Level of position</i>	<i>Years of experience in Russia</i>	<i>Type of Company</i>
<i>Informant 1</i>	High-level manager	5,5 years	Large Swedish MNC
<i>Informant 2</i>	High-level manager	20 years	Large Swedish MNC
<i>Informant 3</i>	Former high-level manager	3 years	Large Swedish MNC
	Founder of another company	20 years	Small Swedish MNC
<i>Informant 4</i>	High-level manager	20 years	Large Swedish MNC
<i>Informant 5</i>	Founder of the company	8 years	Large Swedish MNC
<i>Informant 6</i>	Member of the executive management board and senior advisor	4 years	Large Swedish MNC

*Table 1. Informant Details*

### **3.2.5 The Interview Process**

Our interview process started with creating an interview guide consisting of five sections; *Background, Intro, Culture, Networks, and Corruption* (See Appendix). These sections of the interview were devised as part of the operationalization process. In the context of primary data collection, such as in the present study, operationalization refers to utilizing a study design to provide an answer to a research question (Elliot, Fairweather, Olsen & Pampaka, 2016). This involves identification of the constructs that are required to answer and define the research questions (ibid), ‘*How do Swedish MNCs perceive corruption in Russia when operating there?*’ and ‘*How do Swedish firms respond to corruption in Russia?*’

In the present study, culture and networks were identified as components of corruption, thus we asked questions on these topics at the beginning of the interview. However, the majority of questions were directly related to corruption. Important elements of culture and networks, such as the concept of *blat*, and differences in business ethics were used

to formulate specific questions that represented and informed on them in relation to corruption. Culture and networks were chosen as specific sections, as we felt that beginning the interview asking direct questions about corruption may be somewhat intimidating for the informants. It must be noted that despite the emphasis on culture and networks in the interview guide, all aspects of the theoretical framework have equal importance.

Additionally, when formulating questions on corruption specifically in the present study, the theories on corruption discussed in the ‘Theoretical Background’ of the present study were used. When outlining how Swedish firms perceive corruption, the theoretical framework of corruption developed in the present study is vital to identify and categorize themes that occur. Thus, the questions in the interview guide are largely based on these theories. The planned follow up questions of the interview guide were largely focused on finding out how Swedish firms responded to these elements of corruption that they perceived.

By using an interview guide, researchers can achieve greater flexibility when conducting interviews (Bryman & Bell, 2015). This can be done in order to find information on what our participants felt were the most pressing issues (Bryman & Bell, 2015) relating to our research question, based on their own perspective. Due to the experiential nature of the information we intended to collect, this was the optimal interview process. In the Background section of the interview guide, we asked for some key relevant background on the individuals’ experience. In the introduction section, we asked some basic questions relating to the Swedish firm they worked for in Russia. These two sections framed the individual and the company’s experience. In the culture section, we asked questions relating to differences and challenges in business culture and ethics when operating in Russia. In the networks section, we asked questions about informal networks, including *blat* specifically. In the corruption section of the interview, we asked about the participants’ experience with, and knowledge of, corruption, as well as some of its specific forms and manifestations, such as bribery. Many questions throughout the interview consisted of planned prompts, in the form of a request for the informant to expand based on their answer. Here is an example of this, with the prompt in italics and parentheses: “Have you had any first-hand experience of corruption in Russia? (*If yes, tell us about your experience*)”.

We conducted each interview with this guide, focusing on the key questions that made up the guide along with some additional prompts throughout the interview. If the informants mentioned anything relevant or interesting to our research question, we asked the necessary questions on an ‘ad hoc’ basis, in order to facilitate discussion and to guide the informant to

discuss the topics we felt were most important to our research question (Bryman & Bell, 2015). The interviews were all conducted in English. Both authors of this study were present for the entirety of each of the interviews, taking an equal role in terms of questioning and leading the interviews. Due to the travel restrictions and precautions taken by businesses as a result of the Covid-19 pandemic at the time of conducting these interviews, as well as the wide geographical dispersion of our informants, 5 of our interviews were conducted via video call, however one was conducted in-person.

### **3.2.6 Data Analysis**

This study uses the Gioia methodology for coding the collected data from the transcription of the semi-structured interviews. All interviews were transcribed manually. The Gioia method was chosen because it allows for fluidity and flexibility if the researcher is to adjust to the responses of the informant (Gioia, Corley & Hamilton, 2012). In addition, the researcher is able to acquire data that is more innovative and advancing, as conducting research that is not heavily grounded in theory can be restrictive at times (Van de Ven, 2007). The Gioia method is characterized by the concept of a 1st and 2nd order of analysis, involving the breaking down of the process into two stages of analysis (Gioia et al., 2012). In the 1st order of analysis, detailed data categories and themes are developed, maintaining a high degree of accuracy and insight. Here, responses can be compared to data categories based on both similarity and difference. In 2nd order of analysis, these data categories are then observed from a theoretical standpoint, and 2nd order themes are developed. Then, patterns are observed in these themes, with a theoretical perspective still firmly in mind, leading to the development of “aggregate dimensions” (Gioia et al., 2012).

## **3.3 Research Quality**

When requesting participation and conducting our interviews, we felt that ensuring anonymity to the participants was the best way to make them feel secure to answer the questions honestly, ensuring the quality of responses. This decision was made due to the sensitive nature of the topic of corruption. We identified key individuals who had worked for Swedish firms in Russia. The participants had to be significantly knowledgeable in regards to the firms’ Russian operations. This specification of individuals was important in ensuring the quality of our data, to ensure their knowledge and experience regarding our research question was sufficient and correct. To ensure their knowledge was relevant to the time span of the

study, they had to have worked at the company and been involved in its' Russian operations in some way from 1991 until the present. This ensured the relevance of the data in terms of time span. Participants with a longer duration of working in Russia, or at the firm in general, were preferred. Similarly, ideal candidates had worked in the headquarters, or other subsidiaries in Western countries for some time too, in order for a reliable comparison to be made in regards to the specific issues they were faced with in Russia in relation to in other countries, or Sweden. We also identified those individuals who were no longer present in Russia as more preferential participants, as due to the potential of repercussions for speaking about corruption in Russia, we felt they may feel safer to answer honestly about corruption.

### **3.4 Ethical Considerations**

Due to the aforementioned sensitive nature of corruption, and the unwillingness of many people to talk about it, we were concerned with the difficulty in acquiring participants were we to label the interview as an interview on corruption in Russia. Instead, we took a more broad term and labelled the interview as being about political risk when approaching them, but then at the beginning of the interview, we informed the participants of the three main sections of the interview, namely culture, networks and corruption, and acquired consent for the interview and to record. In the interview question guide, we then asked about business culture and informal networks in order to try and get information without bluntly mentioning corruption, with the intention of acquiring honest, truthful responses from our participants. Only later in the interview did we shift the focus directly onto corruption, by asking questions directly mentioning it. Silverman (2000) stressed the importance of establishing trust at the beginning of the interview, by initially asking non-intimidating questions when interviewing about a sensitive topic, such as corruption. We felt that, despite the fact we have chosen an alternative title for our interview, corruption is a form of political risk, so this is not entirely misleading. Similarly, we discussed other areas, namely culture and networks, which are closely interlinked with corruption. At no point were the participants forced to disclose any information they did not choose to- we merely phrased questions in a less accusatory manner.

## 4. RESULT

*In this section, the key findings of the interviews will be reported and described. This is done by organizing the findings into themes in line with the Gioia method. In the first section of results, 4.1, the themes (represented by subheadings) focus on how corruption in Russia is perceived by the Swedish firms, in line with the first research question. In the second section of the results, 4.2, the themes focus on how the Swedish firms respond to corruption in Russia, in line with the second research question.*

### 4.1 Perception of Corruption

The perception of corruption varied among our informants, however, they all perceived corruption in Russia as present, and all agreed that foreign investments into Russia are definitely impacted by corruption. One informant even stated that Russia is one of the worst cases he has seen in regards to corruption. It has also been noted that corruption has, for our informants, taken different forms and shapes, and even varied in the extent to which they were affected by it. Most of our informants had the impression that corruption in Russia is decreasing and becoming more regulated, yet still completely unavoidable. In contrast, however, one informant stressed that there is much more corruption present now than ever before. Simultaneously, one informant stated that corruption is far more sophisticated now and keeps getting more and more advanced.

Whilst the informants highlighted that corruption is not only a problem in Russia, and exists elsewhere and even in Sweden, they said that it was significantly more prevalent in Russia. Furthermore, most of the informants addressed corruption as a part of Russia's culture. Informant 3 was sceptical to this and claimed that foreign companies are not behaving in a compliant matter:

*"So, I would say that people are complaining about Russia to be corrupted but I try to give you a nuanced version of it. It is easy to say Russia is corrupted, but I would say that foreign companies are not behaving in the compliant way that they do at home." (Informant 3)*

In addition to this, informant 3 also claimed that Swedish firms act as if they are unaware of corruption. This can be further strengthened by other informants such as informant 2, claiming that firms are, at times, aware of acting wrong but pretend to be oblivious to the fact that they engaged in corruption. Informant 5 said that corruption is

difficult to avoid in the future once you have engaged in it “stay clean of corruption. It’s a pest. If you start... you can never stop it.”

#### **4.1.1 Cultural Differences**

There has been a clear pattern throughout our interviews that there are massive cultural differences and that Swedish firms can expect to experience a “cultural clash” and “cross-cultural barriers” (informant 3). This is partially explained by our informants as a result of Swedish people not knowing what corruption is, nor how to handle it, and that some activities in Russia would be totally unacceptable in Sweden. Informant 5 even states that “courts can be bought, the way you think about justice does not exist in Russia” while informant 6 said that “there are activities that happen [in Russia] that we feel will be totally unacceptable if it was in Sweden”. Not only is there a difference in the culture, but there is also a difference in legal and political consequences. In addition to this, most of our informants viewed Swedes as naive to Russian ethics and business methods and even admitted they themselves were naive. Most of them claimed that ethics does not exist in Russia and informant 3 said “I do not think they have a business ethics in Russia, to be honest, the ethics is money” and informant 5 stated that “they don't have a tradition of business ethics or moral”. Russian employees may engage in corruption because they believe it's for financial gain, and the good of the company, whilst it may breach Swedish standards.

Furthermore, the interactive approach Russians take has a significant impact on Swedish firms. One approach our informants spoke about was the manner of communication, which was significantly different. This provided communication barriers, as Russians tend to be very direct and lack social game. Others talk about another approach where Russian business people “put you in a corner” (informant 5), and want to be in a position where they have power over you and you are somewhat indebted to them. Informant 5 described this as “the Russian way of dealing”.

The majority of our informants also saw Russia as being a very authoritative and hierarchical country in comparison to Sweden. They were all under the impression that Russia has always had a strong leader, and this has been applied to the business culture of Russia as well, as firms in Russia are now in need of a strong leader. Informant 6 describes the situation as “Russian people don't know anything else but strong leadership or authoritarian leadership” and informant 5 describes the culture as “more controlling”. In addition to this, the business

culture is filled with regulations and control of employees. However, some suggested the hierarchical culture is advantageous, as this enables the avoidance of bribes. This is because reaching out to the top boss can be effective, as these managers usually want to pay as little as possible.

Overall, due to these cultural differences, the majority of our informants experienced that this developed conflicts or issues between the headquarter in Sweden and the subsidiary in Russia. Informant 4 specifically addressed this issue, explaining that he can understand the Russian perspective due to his experience of working in Russia, however, he is restricted in his actions by the fact that they are owned by the headquarter in Sweden, and must therefore comply with company protocol.

#### **4.1.2 Trust Issues**

One extremely big issue that Swedish firms perceived in Russia was the lack of trust. Many stated that coming from such a trusting environment like Sweden complicated the business for them, as Russians do not trust each other until proven trustworthy. This general lack of trust has been extended to lack of trust in social justice and social institutions. Informant 1 stated that “in Russia, you do not trust until you know you can trust the person”.

In regards to trust, all informants believe that transparency is crucial and all companies work to stay transparent. However, many are under the agreement that there is a lack of transparency in Russia. This has had a negative impact in some instances and has led to incomplete information when making decisions being more prevalent in Russia than Sweden. Informant 4 claims that transparency is needed, but “that it is not necessarily a positive thing sometimes when it comes to Russia”.

#### **4.1.3 Relationships & *Blat***

All the informants stated that relationships and networking are important in Russia, and are highly involved in corruption, with informant 6 saying personal relations are “extremely important in Russia”. The informants specifically said that personal relationships and informal networking is particularly prevalent and important in Russia as opposed to elsewhere, with some directly contrasting this importance with Sweden, where it is somewhat less important in business. This is to such an extent that informant 2 stated that “in Russia, people tend to

buy from people rather than from a company”, showing that these informal networks and relationships supersede organizations, whilst informant 4 said Russians “are making decisions based on more affection and relationships than they do for just purely sound business”.

Informant 4 details an individual who was moving between companies had some sort of deal with someone inside the company which allowed them to both profit through corruption, by reselling capacity at spot prices below the market value. In line with this, informant 2 discusses the risk of informal network membership within the Swedish firm, saying:

*“You can have people being too friendly with customers. And then the risk is that they make a deal and say, ‘okay I make sure that you get a discount of so many percent and we split the discount, I get something back.’ So, you also have to make sure that your own people don't get corrupted.”*

*(Informant 2)*

#### **4.1.4 State Sector**

Overall, the informants associated state sector involvement in business with a high level of corruption. Informant 1 said that “Networking and corruption... are more in the state sector”. Informant 1 also detailed instances where a state contract was issued to allow a friend of the distributing official to have a market monopoly, and where a state contract was distributed to a business, in the name of a high-ranking official’s wife, with “enormous marginals”. Similarly, informant 6 also observed malpractice in the distribution of state contracts, and informant 5 stated “delivery of state contracts or contracts is beneficial to the people involved.” Whilst some informants stressed the importance of good political relationships for business, others stated that it was against the company policy to engage too closely with state officials. Informant 4 said that there was a “Golden rule somewhere around \$50” for dinners with state officials, limiting the relationship they are allowed to develop. Informant 1 went as far as to say that as a Swedish company, competing for some state contracts “You will never win. It is impossible”.

#### **4.1.5 Small Firms & Subcontractors**

Another area with high levels of corruption was small companies and subcontractors that Swedish firms are engaged with. These small companies and subcontractors take different

forms, and can range from having a manipulated set up of managers, to being completely fake, non-existent companies. However, many of our informants claim that even local companies in general expose them to corruption, and two of the informants revealed incidents where they had to terminate and cease their relationship with small companies and subcontractors due to corruption, in an attempt to separate from it.

These companies put Swedish firms at risk as they are more exposed to corruption, and can sometimes disappear out of nowhere, leaving unpaid taxes. This in turn could make the Swedish firm legally responsible for those unpaid taxes. Furthermore, the set up of false managers can mislead Swedish firms regarding who they are actually doing business with. Informant 6 claimed that these schemes are called shadow owners and are mainly done for tax planning purposes, however, still leaving the Swedish firms fooled:

*“They set up what they call shadows owners of a company [...]. The one that operates and runs the company is not really the official owner, the owners are someone maybe you don't even know the person and this is done not necessarily, it's not done to fool you as a seller and a supplier but it's done for tax planning purposes in Russia.” (Informant 6)*

#### **4.1.6 Liability of Foreignness**

There has been a clear competitive disadvantage for Swedish firms in Russia due to their restrictiveness in regards to corruption. Swedish firms face no chance competing against corrupt companies as “Russians companies don't care if the companies are paying taxes and if people have the right certificates and permits, and so on” (informant 1), as well as no chance competing against state contracts as mentioned before. Because of the restrictiveness of Swedish firms against corruption, due to compliance and policy, Swedish firms admit to having missed business opportunities. Informant 6 says “We have missed business over the years because we have refused to be involved” and informant 1 said “[referring to corruption as the reason] our business is smaller in Russia than it could be”.

Although our informants agree that there are disadvantages from rejecting corruption, some claim that these disadvantages only play out in short term disadvantages, and in order to survive, avoiding corruption is vital. Furthermore, there are far more harmful disadvantages to expect if engaging in corruption such as negative publicity in the home country, or facing repercussions in the home country for what has been done in the host country. Informant 2

states that “If something is coming into the news that your subsidiary in another country has been involved in corruption, then it is very bad for the mother company”.

#### **4.1.7 Bribery**

All but one of the informants identified bribery as a problem in Russia. We identified two key manifestations of bribery in our interviews. The first draws parallels with informal networking and *blat*, and involves the giving of financial bribes or ‘gifts’ in exchange for favors in return, with informant 2 saying “[in reference to gift exchange] in Russia it is normal standards”. The second manifestation of bribery involves more institutional bribes, such as state officials using regulations to extract bribes. Informant 2 states that “[if state regulations are not adhered to] you expose yourself to fire inspection coming over and saying 'hey this is not in order so I shut you down now, or you fill my pockets and I look the other way", whilst informant 4 depicts a similar situation involving a fine for a lightbulb not meeting regulatory requirements. Informant 3 states that bribes may be hidden in the form of bills. Informant 6 similarly describes how bureaucracy can become a tool for corruption, and informant 4 describes the regulations that are often breached as “Teddy stuff”, depicting how state officials are using small, insignificant regulations to extract bribes when possible for personal gain.

## **4.2 Response to Corruption**

In regards to responding to corruption, whilst this is done to different extents and forms, all informants addressed the importance of responding to issues around corruption when operating in Russia.

### **4.2.1 Duality Pressures**

It was clear throughout our interviews that all informants faced difficulties in trying to comply with the internal pressures while facing external pressures from the corrupt Russian environment. Informant 2 portrayed the difficulties by saying:

*“From one side, they want a perfectly clean business. From the other side you have the cultural differences, and you always have to be able to explain certain circumstances to the bosses. It is not always easy. They want to have sales but they do not want to have any risks, but in Russia you cannot always be without risk.” (Informant 2)*

Although company policies sometimes prohibit certain activities, many working in Russia still try to meet in the middle of the expectations of the company and the expectations of the Russian business culture. This has been demonstrated in our interviews by, for example, offering dinners, but setting a budget for these, or trying to compromise with the culture of giving gifts by offering other things of value, such as trips or flight tickets. Informant 2 states that “you do certain things but not all of them” and that “you have to find somewhere, a compromise”. One informant (informant 3) stressed that the goal of companies is to earn money, rather than to produce compliance protocols, which is a reason why the protocols sometimes get compromised, as it sometimes stands in contradiction to the main goal of earning money.

#### **4.2.2 Importance of Regulations**

All of the informants discussed the importance of regulations and policy in curbing corruption. These regulations and policies took a variety of forms. Firstly, four informants discussed the importance of the corporate policy from the firm’s HQ. Informant 4 said “we have policies that need to be followed, regardless... We still are governed by the same policies and legal policies that have been put up by the group.” Here informant 4 details the fact that the whole company, including all subsidiaries must follow the corporate policy set out by the parent company. Detailing the difficulty and importance in enforcing policy from HQ, informant 6 said:

*“You need to be careful with the business code of conduct, everything and your local staff needs to be constantly educated in what are the values and the business ethics that are for your company, in this case for the Swedish company.” (Informant 6)*

Similarly, informant 1 stated that despite anti-corruption policy and experience in handling corruption, “there’s always a risk”. Meanwhile, both informant 4 and informant 2 detailed some form of a conflict, or restriction in their actions in Russia based on the policy of the HQ, with informant 2 describing company guidelines as “a little bit naive”. Likewise, Informant 4 asserted there are times he would deviate from elements of company policy as it “sometimes goes against logic... from a business perspective”.

Both informant 4 and informant 1 detailed the importance of a firm being listed on a Western stock exchange, due to the regulations from these stock exchanges that the firm must comply with limiting their ability to engage in corruption. Informant 4 discussed how the

Swedish firm he worked for was listed on a stock exchange and how this regulated their behaviour “we're governed by rules that are... we're listed in NASDAQ in Stockholm... NASDAQ has FCC rules in the US which we need to follow”. Informant 4 continues to extend the importance of stock exchange membership for Russian firms, saying if they are “listed in Russia only” they do not have “high political standards”. Informant 1 corroborated this, saying, in reference to the Russian customers of the Swedish firm he works for:

*“One of them is listed on the London stock exchange and one of them is listed on the New York stock exchange, and they are huge organizations and we have strongly regulated agreements with them so it is very difficult to make any corruption in those types of international agreements.” (Informant 1)*

Informant 4’s above statement on firms listed only in Russia draws parallels with the lack of institutional trust detailed in the previous section. Similarly, in the previous section we described Russian regulations being used by state officials to extract bribes from firms. Informant 2, informant 3, and informant 4 all detailed that it is important to strictly adhere to Russian regulations to avoid consequences, with informant 2 saying “pay your taxes, don’t try to be smart and save, because then you are at risk”. Furthermore, informant 5 stressed the importance of institutions in Sweden in combating corruption, and later compared the situation in Sweden to that of Russia, “the way you think about justice does not exist in Russia”.

### **4.2.3 Business Model & Network**

The business model and the formal business network of the Swedish firm was highlighted as having an important impact on the response to corruption by three of the informants.

Informant 1 said that corruption could be avoided to some extent by:

*“Selecting the right business model, having less local contact and local interaction, having more sort of international agreements between (company) in Sweden and local customers, selling with our currencies, fully transparent and having these very strict compliance functions”. (Informant 1)*

In line with informant 1’s comments, informant 2 stated that most of his firm’s partners in Russia are Western firms, helping them to avoid corruption through the formal business network, as well as limited state involvement, however they are exposed to corruption through local customers. Similarly, informant 1 stated his firm’s biggest exposure to corruption was through small, local subcontractors. Minimizing contact with local firms appears to be the ideal method to avoid corruption. Informant 1 and informant 4 both

emphasized the importance of educating the Russian firms in their business network on how to do business with them in accordance with their compliance functions. Informant 1 also stressed the importance of screening firms before doing business to be safe, whilst informant 2 emphasized the importance of networking with individuals within a firm with whom you have business to avoid corruption, saying:

*“If somebody wants to put some money in his own pocket, he will try to convince you that he is the decision-maker and you have to take good care of him. If you get to know more people inside the company, you will be able to neutralise that, because you will make sure that he is not the only decision-maker.” (Informant 2)*

Informant 2 further extended this by placing the importance of networking with a large number of people, in high up positions and across different departments in order to strengthen this method of responding to corruption. In line with this, informant 4 stated the importance of collecting information from businesses in your network, such as customers, to help gain information on corruption when making business decisions. Additionally, informant 4 highlighted the importance of a centralized internal structure in order to ensure the firm’s policies were being met within the subsidiary to avoid local employees making decisions that could go against this, corroborating informant 1’s statement on the importance of transparency and a strict compliance function.

#### **4.2.4 Industry Context**

Most of our informants were under the impression that corruption varies depending on industry and sectors, and that some industries are more vulnerable to corruption, presenting a correlation between exposure to corruption and industry. Our informants stress that choosing an industry where Russian competitors can be avoided is preferable, as local Russian competitors can do the exact same thing for a reduced price as a result of corruption schemes. Furthermore, these informants claim that choosing the right business segment is important. Doing a careful selection of the industry sector can help prevent the amount of corruption one is exposed to.

#### **4.2.5 Personnel Policy & Education**

All of our informants spoke about some form of personnel policy and management as a tool for responding to corruption. In some cases, this took the form of advice to other firms, whilst

in others they discussed their own actions and experience whilst working for a Swedish firm in Russia. Informant 2 emphasized the importance of monitoring discounts given by employees to customers, advising avoiding “going one to one in important negotiations” to respond to corruption in informal networks within the organization. Informant 1, informant 2 and informant 6 emphasized the importance of education and training of staff to combat corruption. Informant 6 elaborated on the importance of educating on corporate policy so that staff are aware of what constitutes unethical practice from the perspective of the Swedish firm, as well as ensuring employees that they will not be punished for whistleblowing. Informant 6 stated that at times firing is necessary to avoid corruption, whilst informant 1 said that the fear of losing the job can push employees to follow regulations.

Additionally, we saw the importance of having good, knowledgeable Russian employees, with informant 1 saying "you need to have someone that you can trust, locally, to understand the local environment and the specifics here". Informant 5 and informant 3 further expanded on the importance of having the right local employees, with Informant 3 saying “you need to have a skilled manager from the head office, who is surrounded by local skilled people and trustable people, that's the magical combination.” In addition, informant 4 discussed the importance of local leadership in the Swedish firm having an understanding of modern Western business practices, as well as understanding the local business practices, to effectively bridge that gap. Informant 5 went as far as to say that having an experienced Russian business partner to help navigate and educate on Russian business practices is essential, even retrospectively stating that his operations would have been far more successful if he had one.

# 5 DISCUSSION

*In this chapter, the key themes and findings of the interviews will be discussed and analyzed from a theoretical perspective, in line with the theoretical framework developed in the theoretical background section of this study. Thus, the themes from the results will be reordered and analyzed, when appropriate, in relation to relevant theory.*

## 5.1 Principal-Agent Theory

In the case of malpractice in the distribution of state contracts, we see a parallel with the agency problem as detailed in Principal-Agent Theory, whereby the Agent, in this case a state official, distributes a state contract to a firm with the intention of some personal gain, at the expense of the Principal, in this case the Russian state (Groenendijk, 1997). Here the individual engages in corruption and uses the responsibility they have for their own interests (ibid). This connects to the concept of *blat* and informal networking, where these contracts may be distributed based more on connections and personal gain for the associates in the network (Ledeneva, 2009) than the benefit of the Principal. In regards to the Swedish firm, this is detrimental as it excludes the Swedish firm from the state contract sector, with Russian firms with political connections usually taking these contracts.

Similarly, in our interviews, we saw the Agency Problem also occur within the Russian subsidiaries of Swedish firms. Again, these individuals were making business decisions that were favourable to them and their informal network contacts, for shared mutual benefit. This shared mutual benefit and protection of each other's interests also draws parallels to Social Exchange Theory (Lawler & Hipp, 2010). In the case of the Agency Problem amongst employees of Swedish firms in Russia, we saw cases of employees (or Agents) making business decisions such as pricing below market value to a contact and then splitting the profit of the discount with their collaborator in the other firm. This is directly financially detrimental to the Swedish firm (or Principal), with the employee making a financial gain at their expense. As discussed by informant 2, sending at least 2 representatives of the firm for negotiations was an effective response to prevent individuals acting against the interest of the firm for personal gain, which was an issue that accurately depicts the Agency Problem occurring within Swedish firms operating in Russia.

## **5.2 Regulations & Education as Collective Action**

Collective Action Theory posits that widespread collective action must be undertaken by a group to remediate corruption (Persson, Rothstein & Teorell, 2013). Across the interviews, both the enforcement of regulations and the education of employees and partners on ethical practices are collective actions that were evidently being used as a response to corruption by Swedish firms in Russia. In the case of regulations, the informants highlighted a contrast between the lack of trust in institutions in Russia with that of Western institutions such as stock exchanges and justice systems. These large-scale regulations, which I4 referred to as being put in place by the “greater community” were highlighted as being one of the most important factors in curbing corruption, and ensuring compliance with such regulations, where suitable, was one of the key methods the informants highlighted for responding to corruption.

Additionally, the Swedish firms viewed it as important to educate and train their employees with company-wide initiatives to prevent corruption and to inform on what it is, since corruption is a broad, loosely defined phenomenon. In this situation, education, as a collective action, is being used to respond to corruption where it is a widespread collective action itself. Thus, education is necessary where corrupt practices are so widespread that the individuals engaging in corruption in a high-level corrupt environment such as Russia may be unaware that they are in fact engaging in unacceptable behaviour, by Swedish or Western business standards. There is a distinction between collective actions taken by institutions to curb corruption, in the form of ethical regulations which become part of the compliance policy of MNCs, and between collective actions taken within these organizations, where they enforce these policies within the organizations, and educate their employees and business partners on how to comply. Collective Action Theory ultimately sees corruption as a societal issue, requiring large-scale change as a response (Persson, Rothstein & Teorell, 2013), and education programmes and regulation enforcement appear to be in line with this sentiment.

## **5.3 Game Theory & Trust Issues**

Massive trust issues in Russia have been prevalent in our study. The extremely unreliable environment in Russia could be a reason why corruption is still so present and pervades, as a great lack of trust and doubt can lead to the anticipation of corruption by others and then, in line with Game theory, engage themselves in corruption. This leads to a higher likeability in

others engaging in corruption, reinforcing corruption even more into the Russian culture. As Sweden is a country with high public trust (Makarova, 2018), and low corruption (Transparency International, 2019), it becomes very clear that Swedish firms are not equipped for the Russian environment.

Additionally, we saw cases where Swedish firms were at a competitive disadvantage due to their inability to engage in corruption whilst a Russian competitor was engaging in corruption, as seen in *Figure 1 (Section 2.2.3)*. In this situation, we saw that the Swedish firms chose to avoid operating in these specific sectors or geographical regions, as they viewed the competitive disadvantage as too large. Thus, the Swedish firms chose their operations in order to avoid situations where they were faced with the competitive disadvantage of the Game Theory Model depicted in *Figure 1*.

## **5.4 Neo-Institutional Organization Theory**

One of the biggest challenges Swedish firms face is the dual pressures of complying with the internal pressures while simultaneously facing the external pressures from the corrupt Russian environment. These conflicting pressures leave Swedish firms with a dilemma. From our interviews, it is clear that many Swedish firms try to meet in the middle and somewhat satisfy and comply with Russian culture, which can, according to Karhunen and Kosonen (2013), be a determining factor for survival in some instances. As Karhunen and Kosonen (2013) stress, engaging in corruption can, however, lead to repercussions in the home country, which was feared by many informants.

In addition to this, rejecting the external pressures of corruption can often lead to competitive disadvantage (Karhunen & Kosonen, 2013), which has been a prominent issue of our informants. Many have faced loss of business and even rejected business due to avoiding corruption. This draws parallels with Game Theory, as rejecting corruption while competitors engage in corruption can lead to financial losses.

Swedish firms, and firms in general, are extremely limited in completely avoiding corruption in Russia. It seems extremely difficult to fully reject corruption and still survive in such an environment, hence the need for compromise and meeting in the middle. The risks can be narrowed, but not totally removed. This, in combination with originating in a low-level corrupt home country where people do not know how to handle corruption, creates another

issue. The culture clash experienced and the fact that many informants claim that Swedes do not know how to handle corruption at all, due to the low levels found in Sweden, leads us to believe that Swedes are ill-equipped regarding how to respond to corruption. If, in fact, Swedes are ill-equipped and cannot correctly respond to corruption, whilst being 100% legal in Russia is impossible, how can Swedish firms make sure they handle the small amount of corruption correctly? There is a risk that both the Swedish culture of rejecting corruption and the Russian culture of engaging in corruption are both neglected as a result of this, as Swedish firms might fail to satisfy the Swedish culture of being 100% legal while failing to satisfy the Russian culture because, although attempting to, the response to corruption was not fulfilling the norms of Russia. As the internal and external pressures are conflicting, complying with one leads to the rejection of the other (Karhunen & Kosonen, 2013), however, we see the bigger danger of both pressures being neglected instead.

## **5.5 Culture**

All informants agree that there is a large cultural difference between Sweden and Russia, where Russia has a high level of corruption. Since culture is a driver for corruption (Achim, 2016), the Russian culture could be said to foster even more corruption. In addition, the correlation between culture and corruption aggravates the fight against corruption when it is closely merged to the society (Fisman & Miguel, 2008). Regarding this, some of our informants claim that they perceive that corruption has recently been on the rise in Russia. In contrast, some informants stress that corruption is getting more and more sophisticated. As corruption merged closely into a culture is hard to abolish (Fisman & Miguel, 2008), the notion of corruption being reduced now could in fact be a result of a far more sophisticated corruption set up. This could mean that although there is an outward picture of corruption decreasing, and heavy pressure to fight corruption in Russia, companies find loopholes, new methods of corruption, and schemes to go around this. This could make corruption more sophisticated and difficult to identify or expose, and in turn harder to counteract.

Furthermore, the fact that some Russian employees may engage in corruption from time to time for the benefit of the company can be explained by Cheloukhine and Haberfeld (2011) stating that high exposure to criminal behaviour eventually leads to viewing it as normative. Due to corruption being highly merged into the culture of Russia, there is a high possibility that Russians have a distorted view of corruption and, to some extent, see it as

normative behaviour and standard business practice. This could be a danger as this blurs the separation between what is right and wrong in regards to corruption for Russians, as well as aggravates working with Russians for Swedes, as the difference in morals and ethics becomes large and unclear.

## **5.6 Informal Networking**

We saw two key elements for the potential of informal networking to negatively impact Swedish firms in Russia; exclusion from informal networks, and inter-organizational networking.

### **5.6.1 Exclusion from Informal Networks**

In the context of extra-organizational networking, we see the Swedish firm in Russia at a significant competitive disadvantage, due to a predisposition for Russian firms and individuals to do business with those in their informal network who they already have relations with. This, however, may be turned into an advantage if the firm does the right networking and develops a good network through its personnel. Here we see the usefulness of a Russian business partner to help navigate the Russian way of doing business, as many of our informants suggested as an important consideration for Swedish firms doing business in Russia. Furthermore, these extra-organizational networks may limit the sectors or regions the firm may operate in, such as in the cases where one informant stated that Swedish firms cannot compete at all in some state sectors, whilst another informant detailed a scenario where a competitor had advantage over the Swedish firm in a certain region due to a relationship with a local political contact. This went as far as to actually drive their business out of that region, allowing the competitor firm to dominate the local market, showing the extent of the competitive advantage informal networks and corruption can give to a firm.

### **5.6.2 Inter-Organizational Informal Networking**

In the case of inter-organizational networking, this becomes a risk to the Swedish firm when employees of the firm are part of an informal network outside of the firm and choose to act against the interest of the firm in favour of their informal network, as seen in the Agency

Problem (Groenendijk, 1997). Here we see, as discussed by informant 2, informant 4, and informant 6, the potential for individuals within the Swedish firm to make deals with individuals in their network for their own financial advantage. The inter-organizational network supersedes the firm and creates a risk to the firm. This is because in Russia, these informal relationships are often deemed as more important than organizational commitment. As this phenomenon is less prevalent in Sweden as in Russia, this becomes a risk which Swedish firms may be ill-equipped to respond to. As seen in our interviews, personnel selection, monitoring, and firing, when necessary, is vital to combat corruption arising from inter-organizational networks when they exist within the organization.

### **5.6.3 Social Exchange Theory in Informal Networks**

As stated by informant 5, it is hard to break free from corruption once an entity engages in it. This draws parallels with Social Exchange Theory, where we see a continuing engagement in corruption to preserve interests and protect oneself from repercussions for all parties engaging in corruption, which could be a driving force for the difficulty of disengaging from corruption (Lawler & Hipp, 2010). Social Exchange Theory explicitly describes the difficulty in ending these kinds of relationships (ibid). Additionally, informant 4 described instances where customers in his network expected special treatment in future business interactions because they had a previously established business relationship. Here we see another manifestation of the formation of a shared interest between members of a network, as seen in Social Exchange Theory (ibid). This provides an explanation of why Swedish firms see corruption as pervading in Russia, despite the responsive measures they take.

### **5.6.4 Business Network Theory**

Building and establishing relationships is vital according to both our interviews and theories, such as Social Exchange Theory (Lawler & Hipp, 2010) and *blat* (Ledeneva, 2009), stressing that relationships play a big part in Russia. In addition to this, choosing the right partner is of importance, as individuals will favour doing business with people within their established networks, and choosing a wrong partner could lead to a variety of negative consequences and problems. However, one problem noted amongst our informants is the so-called ‘Shadow Owner’ problem. If you are fooled to believe that you are dealing with a specific individual who is believed to be the owner of a company, when in fact they are merely a shadow owner,

the danger of going into business with the wrong person rises, as you cannot tell who it is you are actually doing business with.

In addition, the firm's formal business network can be utilized to respond to corruption in the business environment. The informants we interviewed highlighted the importance of choosing business partners effectively to limit the firm's exposure to corruption. Some of the informants chose to do business with as few local firms as possible, such as having local firms in their network only as customers, whilst others stated that by avoiding government involvement, they were able to reduce their exposure to corruption. By doing this, these firms have been able to minimize risk and exposure to corruption, whilst still operating within Russia.

Some of the informants highlighted the importance of developing relationships with individuals within the partner firms within their network, as a method of responding to corruption in cases where they are forced to expose themselves to it by doing business with local firms. The authoritative, hierarchical structure of Russian culture also plays a part here, whereby having direct contact with key decision-makers of local Russian firms can prevent problems such as bribery arising from the agency problem amongst other employees of the local firm. The informants also noted the importance of collecting information from many employees of local firms in their business network. This shows the importance of establishing the right business connections, both on an organizational and personal basis, in order to both reduce exposure and effectively respond to corruption in Russia.

## 6 CONCLUSION

There is a clear pattern that corruption in Russia is inevitable, coming in many different forms. In addition, Swedish firms operating in Russia are subject to the liability of foreignness, putting these firms in an even more vulnerable position. The state sector in Russia is perceived by Swedish firms as high-risk in regards to corruption, and they see themselves as having little chance competing there. Strategically, Swedish firms, and foreign firms in general, would benefit from avoiding this area. Small firms and subcontractors are also considered highly risky, but not to the same extent. As contact with these firms is sometimes unavoidable, it is extremely important to screen them in advance to ensure that they are legitimate. In addition to this, Swedish companies see clear cultural differences, and experiencing cultural clashes and cross-cultural barriers, as well as massive trust issues being prevalent in Russia. Moreover, Swedish companies perceived relationships, networking and blat as vital, but highly involved in corruption. Lastly, bribes were identified as a problem in Russia and that these can often be hidden in different forms.

Furthermore, Swedish firms have identified bribery and informal networks as challenges to their operations in Russia. Within these informal networks, we see individuals acting for the benefit of themselves and their collaborators, much in the same vein as observable in Social Exchange Theory and Principal-Agent Theory. On an individual level, personal gain, and putting loyalty to informal networks above loyalty to the organization appear to be key drivers for individuals to engage in corruption. Additionally, the normality of corrupt behaviour within the Russian business environment appears to drive individuals to engage in corruption, as can be seen in Collective Action Theory and Game Theory. The normality of corruption in the environment appears to allow corrupt actions to be tolerated, and in some instances even preferred, since business ethics are unimportant in Russia, and some corrupt actions are seen by Russians as beneficial to the firm.

Overall, throughout the interviews we have seen an overriding emphasis on Swedish firms responding to corruption when operating in Russia by finding a mid-ground between differences in Sweden and Russia. We see this where firms are engaging in small ethical breaches that go against Swedish business culture, whilst refraining from making big deviations from Swedish standards. Similarly, we see the use of personnel, such as a Russian business partner, as ideal for mediating the culture of the firms HQ in Sweden and that of the Russian subsidiary through mutual understanding. This also allows for the policy and

procedure of the HQ in Sweden to be adhered to some extent, with minimal negative implications on the firm's operations in Russia. Finding somewhat of a balance between the two countries' corporate cultures appears to be one of the most important aspects of effectively responding to corruption in Russia, as this was given as final advice to other firms by many of the informants interviewed in the present study. This is also crucial in responding to the dual institutional pressures firms face, both internally and externally, as there is a risk of neglecting both cultures when trying to mediate between them. Having a Russian business partner will minimize the risk of neglecting the Russian business culture. Future studies may look at the effectiveness of minimizing cultural differences and matching HQ policy with local norms in the context of corruption for MNCs from a home country with a low level of corruption entering a country with a high level of corruption.

In regards to firms who are operating or may plan to operate in Russia in the future, from our research we identified five key factors that may impact a firm's exposure to corruption when operating there. Firstly, firms listed on stock exchanges are less exposed to corruption. Secondly, the industry in which a firm operates may impact the exposure to corruption. Thirdly, the level of government involvement may impact a firm's exposure to corruption in Russia. Fourthly, elements of the firm's business network model, such as the supply chain, customer base, and level of internationalization may impact exposure to corruption. Lastly, the internal structure of the company, such as the leadership and employees of the company can impact corruption. We identified these factors as not only an important consideration for foreign firms when making strategic decisions to avoid corruption in Russia, but also as an important area for future research. Future research could focus on further analyzing which factors or combinations of factors expose MNCs to corruption, and how this exposure can be mitigated. This could also be an important area for future research amongst firms from countries with a low level of corruption operating in other countries with a high level of corruption.

## **6.1 Limitations of the Research**

Due to corruption being a very sensitive topic, since it is not only morally problematic, but also illegal, we are made aware that the collection of internal data is somewhat difficult. It could potentially be an issue due to the unwillingness or personal interests of the informants, as they might not want to reveal confidential or internal information due to fear of

repercussions or loss of personal benefit. The unwillingness of informants to share internal information may in turn impact and influence our collected data, and raise the question of its reliability. Companies with an organizational culture with a high level of organizational loyalty can also prevent informants from displaying information about corruption. Since organizational loyalty is an endemic concept in Russia, this will be an obstacle for us, as our paper specifically targets Russia.

As mentioned before, many of the individuals matching our criteria and who we interviewed were geographically dispersed. This limitation was resolved for the most part through our use of virtual snowball sampling, as well as Skype interviews, however, it may still have restricted our ability to conduct interviews and source information on potential participants. Additionally, we found that corporate bureaucracy meant it was harder to get responses from contacting companies, and that they were less motivated to refer us to relevant individuals.

Similarly, we believe that the Covid-19 pandemic, ongoing at the time of writing and conducting research, put stress on firms and made them less likely to agree to participate, refer, or even respond. In some responses, we even had individuals decline to participate due to an increased workload which they attributed to the ongoing situation with Covid-19, as well as a participant who opted to do a Skype interview due to the pandemic.

# References

- Abed, G. T., Gupta, S., & International Monetary Fund. (2002). *Governance, Corruption & Economic Performance*. Washington, D.C.: International Monetary Fund.
- Abramova, I. (2007). The Funding of Traditional Organised Crime in Russia. *Economic Affairs*, 27(1), pp. 18–21.
- Achim, M. (2016). Cultural Dimension of Corruption: A Cross-Country Survey. *International Advances in Economic Research*, 22(3), pp. 333–345.
- Åslund, A. (1991) *Gorbachev's Struggle for Economic Reform* (Updated and Expanded Edition). London, UK: Pinter Publishers Limited.
- Baltar, F. & Brunet, I. (2012). Social Research 2.0: Virtual Snowball Sampling Method Using Facebook- *Internet Research*, 22(1). pp. 57-74.
- Benzell, S. G., & Lagarda, G. (2017). Can Russia Survive Economic Sanctions? *Asian Economic Papers*, 16(3), pp. 78–120.
- Bonell, M.J. & Meyer, O. (2015). *The Impact of Corruption on International Commercial Contracts*. Cham: Springer International Publishing.
- Broeders, J., & Hakfoort, J. (1999). “And Their Right Hand is Full of Bribes” Corruption and Real Estate. *Ethics in Real Estate*. pp. 109–127.
- Brown, R. (2000). *Group Processes* (2nd Ed.). Oxford: Blackwell Publishing.
- Bryman, A. & Bell, E. (2015). *Business Research Methods* (3rd Ed.). Oxford: Oxford University Press.
- Campos, J. E., & Pradhan, S. (2007). *Many Faces of Corruption : Tracking Vulnerabilities at the Sector Level*. World Bank, Washington, DC.
- Cheloukhine, S., & Haberfeld, M. R. (2011). *Russian Organized Corruption Networks and their International Trajectories*. (1st Ed.). London; New York: Springer.
- D'Cruz, J.R. & Rugman, A.M. (1994) Business Network Theory and the Canadian Telecommunications Industry, *International Business Review*. 3(3), pp. 275-288.
- Elliot, M., Fairweather, I., Olsen, W., & Pampaka, M. (2016) Operationalization. *A Dictionary of Social Research Methods* (1st Ed.) Oxford University Press

- Ernst & Young (2013). Russia Attractiveness Survey 2013. Available at: <https://www.ey.com/ru/en/issues/business-environment/russia-attractiveness-survey-2013> [2020-01-26]
- Ernst & Young (2017) Russia Ranked Seventh Among European Countries for FDI, European Attractiveness Survey. Available at: <https://www.ey.com/ru/en/newsroom/news-releases/ey-russia-ranked-seventh-among-european-countries-by-fdi-projects> [2020-01-27]
- Feldman, D. C. (1984) The Development and Enforcement of Group Norms. *Academy of Management Review*, 9(1), pp. 47-53.
- Fisman, R. & Miguel, E. (2008). *Economic Gangsters: Corruption, Violence, and the Poverty of Nations*. Princeton, N.J.: Princeton University Press.
- Fisman, R., & Miguel, E. (2007). Corruption, Norms, and Legal Enforcement: Evidence from Diplomatic Parking Tickets. *Journal of Political Economy*, 115(6), pp. 1020–1048.
- Ford, D. & Mouzas, S. 2013, The theory and Practice of Business Networking. *Industrial Marketing Management*, 42(3), pp. 433-442.
- Galeotti, M. (2018). *The Vory: Russia's Super Mafia*. London;New Haven: Yale University Press.
- GAN Integrity. (2017). Russia Corruption Report. Business Anti-Corruption Portal. Available at: <https://www.ganintegrity.com/portal/country-profiles/russia/> [2020-01-27]
- Gioia, D. A., Corley, K. C. & Hamilton, A. L. (2013), Seeking Qualitative Rigor in Inductive Research: Notes on the Gioia Methodology, *Organizational Research Methods*, Vol. 16, No. 1, pp. 15-31
- Grant, R. M. (2016). *Contemporary Strategy Analysis: Text and Cases* (9th Ed.). West Sussex: Wiley, Chichester.
- Groenendijk, N. (1997) A Principal-Agent Model of Corruption. *Crime Law and Social Change* 27(3), pp. 207-229.
- Gros, D. & Steinherr, A. (2004) *Economic Transition in Central and Eastern Europe* (First Edition). (236-237). Cambridge: Cambridge University Press.
- Holmes, L. (2008). Corruption and Organised Crime in Putin's Russia. *Europe-Asia Studies*, 60(6), pp. 1011-1031.

Husted, B. W. (1999). Wealth, Culture, and Corruption. *Journal of International Business Studies*, 30(2), pp. 339-359.

Index Mundi. (2019). Finland vs. Sweden. Available at:

<https://www.indexmundi.com/factbook/compare/finland.sweden> [2020-03-05]

Ionescu, L. (2011). Contemporary Economic Crime and Corruption in Russia. *Economics, Management & Financial Markets*, 6(2), pp. 137–142.

John, A., & Lawton, T. C. (2018). International Political Risk Management: Perspectives, Approaches and Emerging Agendas. *International Journal of Management Reviews*, 20(4), pp. 847–879.

Jones, G., & Comunale, R. (2018). Business, Governments and Political Risk in South Asia and Latin America since 1970. *Australian Economic History Review*, 58(3), pp. 233-264.

Karhunen, P. & Kosonen, R. (2013). Strategic Responses of Foreign Subsidiaries to Host Country Corruption. *Critical Perspectives on International Business*, 9(½), pp. 88-105.

Karhunen, P., & Ledyeva, S. (2012). Corruption Distance, Anti-corruption Laws and International Ownership Strategies in Russia. *Journal of International Management*, 18(2), pp. 196–208.

Khoman, S. (2016). Corruption and Network Relationships: Theory and Evidence from Thailand. In Teixeira, A., & Pimenta, C. (2016). *Corruption, Economic Growth and Globalization*. . New York, NY: Routledge, pp. 84-111.

Kleiner, V. (2012). Anti-Corruption Strategy of Business in Russia. *Problems of Economic Transition*, 55(2), pp. 3-20.

Kuhn, S. (2019). *Stanford Encyclopedia of Philosophy*. Prisoner's Dilemma. Available at:

<https://plato.stanford.edu/entries/prisoner-dilemma/> [2020-02-26]

Kusznir, J. (2016). Doing Business in Russia. The Main Political Risks and Challenges for International Companies. Available at:

[https://www.researchgate.net/publication/320475170\\_Doing\\_Business\\_in\\_Russia\\_The\\_main\\_political\\_risks\\_and\\_challenges\\_for\\_international\\_companies](https://www.researchgate.net/publication/320475170_Doing_Business_in_Russia_The_main_political_risks_and_challenges_for_international_companies) [2020-01-30]

Lawler, E. J. & Hipp, L. (2010). Corruption as Social Exchange [Electronic version]. In Thye S. R. & Lawler, E. J. (Eds.), *Advances in Group Processes*, 27. Bingley, UK: Emerald Publishing, pp. 269-296.

- Ledeneva, A. (2008) "Blat and Guanxi: Informal Practices in Russia and China", *Comparative Studies in Society and History*, 50(1). pp. 118-144.
- Ledeneva, A. (2009) From Russia with "Blat": Can Informal Networks Help Modernize Russia? *Social Research*. 76(1), pp. 257-288.
- Liuhto, K. (2008) Genesis of Economic Nationalism in Russia. *Electronic Publications of Pan-European Institute*, (3), pp 1-36.
- Liuhto, K., Heikkilä, M., & Laaksonen, E. (2009). Political Risk for Foreign Firms in the Western CIS -- An analysis on Belarus, Moldova, Russia and Ukraine. *Journal for East European Management Studies*, 14(4), pp. 395–407.
- Macrae, J. (1982) Underdevelopment and the Economics of Corruption: A Game Theory Approach. *World Development*. 10(8), pp. 677-687.
- Makarova, M. (2018). The Anti-Corruption Civil Society in Sweden as Part of Sustainable Policy Networks. *Regional Formation & Development Studies*, 26, pp. 79–92.
- Moscow Times. (2019). Russia Passes Law to Employ Prisoners Near Businesses, Draws Gulag Comparisons, July 23rd. Available at: <https://www.themoscowtimes.com/2019/07/23/russia-passes-law-to-employ-prisoners-near-businesses-drawing-gulag-comparisons-a66529> [2020-01-30]
- Osifo, O. C. (2018) A Network Perspective and Hidden Corruption. *Journal of Public Administration and Governance*, 8(1). Available at [www.researchgate.net](http://www.researchgate.net) [2020-02-18]
- Persson, A., Rothstein, B. & Teorell, J. (2013) Why Anticorruption Reforms Fail—Systemic Corruption as a Collective Action Problem. *Governance: An International Journal of Policy, Administration, and Institutions*. 26(3), pp. 449–471.
- Ross, S. (1973) The Economic Theory of Agency: The Principal's Problem. *American Economic Review* 63(2), pp. 134-39.
- Samuelson, L. (2016) Game Theory in Economics and Beyond. *Journal of Economic Perspectives*. 30(4), pp. 107–130.
- Saunders, M., Thornhill, A., & Lewis, P. (2012). *Research Methods for Business Students*. 6th Ed. Harlow: Financial Times Prentice Hall.

Scharbatke-Church, C. & Chigas, D. (2019) Understanding Social Norms: A Reference Guide for Policy & Practice. *Social Norms, Corruption & Fragility*. Available at: [www.sites.tufts.edu](http://www.sites.tufts.edu) [2020-02-18]

Shleynov, R. (2017). Firm Linked to Putin Friend Smoothed Path for BP in Russia. Organized Crime and Corruption Reporting Project. Available at: <https://www.occrp.org/en/28-ccwatch/cc-watch-indepth/6785-firm-linked-to-putin-friend-smoothed-path-for-bp-in-russia> [2020-01-27]

Silverman, D. (2000). *Doing Qualitative Research*. London: Sage Publications Ltd.

Swedish Chamber of Commerce for Russia & CIS. (2020). *Our Members*. Available at: <https://swedishrussian.com/list/> [2020-03-13]

Torsello, D., and Venard, B. (2016). The Anthropology of Corruption. *Journal of Management Inquiry*, 25(1). pp. 34–54.

The International Monetary Fund (IMF) (2019) World Economic Outlook Database. Available at: <https://www.imf.org/external/pubs/ft/weo/2019/02/weodata/index.aspx> [2020-01-27]

The International Monetary Fund. (2020). Russian Federation. Available at: <https://www.imf.org/en/Countries/RUS> [2020-01-27]

Transparency International. (2018). What is Corruption? Available at: <https://www.transparency.org/what-is-corruption#define> [2020-02-04]

Transparency International. (2018). Russia. Available at: <https://www.transparency.org/country/RUS> [2020-01-27]

Transparency International. (2018). Sweden. Available at: <https://www.transparency.org/country/SWE> [2020-01-27]

Transparency International. (2019). Corruption Perception Index 2019. Available at: <https://www.transparency.org/cpi2019> [2020-03-05]

UNODC (2019) Theories That Explain Corruption. Available at: <https://www.unodc.org/e4j/en/anti-corruption/module-4/key-issues/theories-that-explain-corruption.html>

Van de Ven, A. H. (2007), *Engaged Scholarship: A Guide for Organizational and Social Research*. Oxford: Oxford University Press

Zeneli, V. (2016). Corruption, Foreign Direct Investment, and International Marketing in the Western Balkans. *Thunderbird International Business Review*, 58(3), pp. 277–291.

# Appendix

## Questionnaire

### Background

What is your current position?

What has been/is currently your connection to Russia?

Please describe your experience of working in Russia

### Intro

When did the firm enter the Russian market?

What urged the firm to enter? ie opportunities etc

Is the company still operating in Russia?

*(If yes... What are those operations looking like?)*

*(If not... Why not?)*

What would you say are the main risks you have faced when operating in Russia?

### Culture

What are the differences between Russian business culture and the business culture of the home country of the firm (Sweden)?

Are there any specific business culture elements in Russia that have impacted your operations?

Do you have any knowledge of instances where cultural differences or differences in procedure between the Russian subsidiary and the Swedish Headquarters caused conflict?

Did you notice any difference in ethics between Russian businesses and Swedish ones?

Were you personally faced with any kind of ethical dilemmas during your time working in Russia?

*(if so, how did you react to this?)*

### Networks

Have you observed any informal networking and practices since working in Russia?

*If yes, what types of networks have you observed?*

Did informal networks have any impact on your operations?

*If yes, what problems did this cause, if any?  
How did you react to this?*

Are you familiar with the concept of *Blat*?  
*If yes, tell us about your experience*

*If no, give a brief explanation of your understanding Blat*

If yes, to above, how did you (or the company) react to issues surrounding *Blat*?

### **Corruption**

Coming from one of the least corrupt countries in the world, Sweden, how did the firm respond to the corrupt environment in Russia?

Do you think that foreign investment into Russia is impacted by corruption?  
(If so, how?)

Do you believe corruption has a significant impact on your operations in Russia?  
If yes, how?

Do you have any knowledge or experience of bribery in Russia?

Do you have knowledge or experience of malpractice amongst state officials involving business in Russia?

Do you have any knowledge of malpractice relating to the distribution of state contracts?

Did you experience any internal pressures from the company to reject corruption while facing external pressures of a corrupt environment?

What do you think are the main issues with firms from low-level corrupt home countries operating in a high-level corrupt host country?

Do you have any knowledge or experience in making choices when not knowing if a competitor would engage in corruption or not?

How did you handle the issue of not knowing whether a competitor or other firm would engage in corruption or not?

How did the firm seek legitimacy when doing business in Russia?

If you were advising a foreign company operating in Russia on how to handle corruption, what advice would you give?