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**DRAFT STUDY
“BUSINESS INTEGRITY AND PUBLIC-PRIVATE INTERACTION
IN THE FIGHT AGAINST CORRUPTION”**

This study is submitted to guide the discussion of the workshop’s Session II on “Business Integrity and Private-Public Interaction in the Fight Against Corruption: Progress and Challenges”. It may also serve as a basis for the development during Session III of Policy Options for the Russian Federation and Russian Regions.

The study is entirely based on consultant research; it summarises the findings of both a desk review as well as face-to-face interviews with different stakeholders in two regions of the North West (Novgorod and Tver) of the Russian Federation.

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**BUSINESS INTEGRITY AND PUBLIC-PRIVATE INTERACTION
IN THE FIGHT AGAINST CORRUPTION**

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Executive Summary

Recently business integrity and corporate social responsibility (CSR) issues have gained much attention. They are particularly important in light of present globalization tendencies. In the modern world business integrity standards and norms may provide basis for international interaction among businesses. Thus understanding of culture specific nuances of business integrity in different countries becomes essential component of planning future relations with foreign business partners.

In transit societies like Russia, understanding of the situation in the business integrity and CSR field is further complicated by dynamic processes taking place in political, economic, and social spheres and requires complex analysis of the general situation in the country.

This report is devoted to the analysis of the situation with business integrity and CSR in Russia. On the basis of document analysis of information about two Russian regions (Great Novgorod and Tver) and series of non-formalized in-depth interviews with representatives of businesspeople, public officials, NGOs' representatives, journalists, and independent experts the study reviews both public sector and private sector actions in the sphere of business integrity and CSR implementation.

The main findings of the study demonstrated several important moments:

- Business integrity is a very complex social, economic, and managerial phenomenon. There are many factors that influence the general situation and implementation of particular components of business integrity. To understand the situation with business integrity we need to conduct thorough analysis of Russian economic, administrative, and social life, and take into consideration other factors.
- In Russia business integrity interferes with many aspects of corporate activities. Business ethics, CSR, anticorruption, transparency and openness are the key issues to be considered by a company planning to implement business integrity system.
- Understanding of business integrity principles varies significantly among businesspeople. Business integrity is a system of measures and standards that can be very adaptive to the environment, where a business operates. At the same time, business integrity can be somewhat misleading. To avoid such confusion, businesspeople should: analyze what business integrity strategies implement their suppliers, partners, and clients; compare with their own attitude; and take precaution in case of significant divergence.
- Russian model of business integrity is very fragmented. Russian business operates in very difficult environment. It has very few spare resources for any initiatives not related directly to survival. Business integrity and CSR implementation depends on opportunities and accidentally available spare resources. As a result business integrity implementation in practices of different businesspeople varies dramatically. There are also significant regional differences.
- Implementation of business integrity standards requires significant efforts of the entrepreneurs. Implementation of business integrity standards requires some restructuring and reorganization of internal relations in a company. It is a long stage-by-stage process.
- Business integrity has mixed nature for Russian businesspeople. On the one hand it limits opportunities for business – unethical and other improper (from business integrity perspective) decisions become unacceptable. Thus, business integrity is lowering competitiveness of a business. On the other hand following business integrity standards is like a good recommendation letter for a business. This way it can significantly simplify communication with business partners and consequently create a competitive advantage. The way how business integrity principles are implemented can maximize or minimize these two aspects.

- To stimulate and support implementation of business integrity standards all forces in the society need to unite efforts and should work collectively. Only collective efforts will pay back. Otherwise individual losses of the pioneering companies in this sphere may demotivate them.
- Government on all levels (federal, regional, municipal) is a very influential player in this sphere. It should create infrastructure, general regulation, favorable conditions, and encourages businesspeople to implement and develop business integrity standards.
- Government should not force businesspeople to implement business integrity standards of participate in CSR activities. The present practice demonstrates that if such an approach is used, it opens wide opportunities for abuse of power by administration.
- Public and consumer oriented NGOs should request implementation of business integrity principles in business practice. Development of business integrity to the extent it is related to the consumers and clients can and should be supported by public opinion and consumer will.
- Business association and business oriented NGOs need to join efforts and should formulate joint strategies of business integrity implementation among their members – such networks will serve as examples and “targets” for non-member businesses.
- Corporate social responsibility in Russian context has special status and meaning. Nowadays the state frequently is not able to carry out its social functions successfully. In such situation, CSR becomes one of the few instruments of stabilization in society. It is a strategic task for Russian business to support society and to contribute to collective development of the country.
- The state should be very careful not to transform CSR into some kind of soviet administrative tool. This way the idea of CSR based on civil society principles can be undermined and sabotaged. CSR was and should stay voluntary activities. This way it will have special meaning for businesspeople, society, and the state.
- Corruption can become a serious impediment to business integrity development and implementation. To avoid such outcome it is necessary to incorporate anticorruption mechanisms into business integrity systems.
- Understanding of corruption problem by businesspeople varies. In many cases it is incomplete. That is why further education of businesspeople in this sphere is required.
- Anticorruption strategy formulation is the most difficult task for businesspeople. They have difficulties in setting the priorities in this sphere. For this purpose emphasis in education should be placed on live examples and practical measures.
- The most effective approach to opposing corruption by resources of business is implementation of collective anticorruption strategy. Complex several stage strategy is recommended for maximum efficiency. Such strategy should be based on collective efforts of businesses, administration, and society.
- Right now civil society is just developing in Russia, that is why anticorruption strategy should involve maximum anticorruption potential of the country.

Introduction

This report is devoted to the analysis of the situation with business integrity and corporate social responsibility (CSR) in Russia. On the basis of an in-depth top down – bottom up analysis of two Russian regions (Great Novgorod and Tver) the study tests the components that contribute to fighting public sector corruption and promoting corporate integrity. The study reviews both public sector and private sector actions in favor of corporate sector integrity.

The main objectives of the study are directly related to the implementation and development of business integrity standards and CSR in Russia. First, the study examines what conditions the federal and local governments created for promotion of business integrity and CSR. Second, the study analyzes whether businesses, in light of international developments, have decided to engage in, or adhere to activities that promote integrity and CSR in order to offset possible government “failures”. Also, the role of civil society in promoting business integrity is examined.

The study is based on research conducted in two Russian regions (North West) – Great Novgorod and Tver regions. As far as socio-economic development of Russian Federation regions is quite disproportionate, for the purposes of avoiding severe bias the choice was made in favor of two very different regions.

Great Novgorod region is an example of an advanced region oriented at contacts with foreign investors. Since mid-90s regional administration has made many efforts to make the region attractive for foreign investors. They created environment and infrastructure for closer co-operation among local and foreign companies. In many respects the administration achieved remarkable results. The region is outstanding in comparison with other Russian regions.

Tver region is more traditional and conservative. The regional administration began to change the development strategy less than couple years ago and the region is not far on this way. It is possible to classify this region as a traditional Russian region willing and making efforts to change. It is particularly interesting to compare Tver with Great Novgorod and to analyze the differences in the business integrity sphere.

The research is based on complex methodology (See Appendix 3 for detailed description). It combines analysis of available documents on the problem with field research organized around non-standardized in-depth interviewing methodology. 52 people representing business, administration, NGOs, public, and mass media were interviewed in the two regions and information acquired from the interviewees provides very interesting insights described in the following chapters.

The report is structured along the following lines:

The first chapter deals with issues of business integrity implementation in corporate environment. It provides analysis of the five aspects especially important for implementation of business integrity standards in Russia:

- Business ethics;
- Openness and transparency of business;
- Anticorruption;
- Corporate social responsibility;
- Social partnership.

The second chapter is devoted to the analysis of the environment for implementation of business integrity and CSR in the project regions. The situation with public administration and its influence on the processes in the regions is examined. Here we review issues like:

- Regional administrative initiatives, special conditions, strengths and weaknesses, etc.;
- Government employment, salaries, overall impact on administrative efficiency;
- Ethical regulations of public officials' conduct;
- Relationship between public power and business;
- Regional laws, formal and informal practices (rule of law);
- Attitude towards foreign trade and foreign investment;

1. Business Integrity and Corporate Social Responsibility

There are different approaches towards defining the margins of business integrity and CSR terms. One is based on the direct comparison of business integrity and business ethics and thus equal to following different codes of business conduct. Another approach includes other aspects of relations of a business with outside actors – society, state, etc. From this perspective CSR is treated as an integral part of business integrity or a direct consequence of business integrity implementation. As far as the study is also devoted to public-private interaction (CSR etc.) into which businesses in Russia are involved, business integrity should be defined on the basis of the inclusive approach.

For example, according to the Code of Business Conduct of “Derek Miller” Investment Group (operates in Russia) it is necessary to regulate the following spheres:

1. Relationships with Other Partner Organizations
2. Relationships with Investors
3. Relationships with Investees
4. Relationships with Employees
5. Relationships with Government Authorities
6. Relationship with the Global Community

Other organizations may use different approaches to categorization and formulation – there is no common standard. Sometimes different aspects may be emphasized, some added, some omitted. Business integrity is a complex and flexible concept, which can be easily adapted to business environment by narrowing or broadening of the scope.

Russian Chamber of Commerce in cooperation with Russian-American Committee on development of business co-operation developed the Basic Principles of Code of Business Conduct that utilized some of the above mentioned principles related to relations with employees, stakeholders, etc. They also supplemented them with separate problem blocks devoted to openness, transparency of operation and anticorruption activities. Some other organizations mention conflict of interests as a particular sphere for business integrity regulation.

Dirol Cadbury Russia additionally focuses on their public activities (e.g. corporate social responsibility) and considers them as an important part of their business integrity system. Much attention is also paid to environmental and ecological issues.

These are just several examples demonstrating a wide variety of approaches to business integrity. Unfortunately the real Russian practices differ greatly. It is a very rare case when an organization realizes a system of business integrity standards. Usually it is very fragmented and circumstantial.

The system of business integrity consists of different components. They are responsible for different tasks; consequently their implementation can be divided into separate stages depending on the circumstances, environment, and available resources.

For the illustrative purposes let us look closer at the business integrity principles of DIROL CADBURY LLC. Company, which has one subsidiary in Novgorod region. DIROL CADBURY is a subsidiary of a foreign CADBURY SCHWEPPEES PLC. Group that has several subsidiaries in Russia, NIS, and Baltic states. The plant specializing on bubble gum is located in Novgorod region (in the suburban area of Great Novgorod city). In the past the factory in Novgorod region had several disputes with local community because of food aromatizer smells. The smells were disturbing for the local community even though harmless. The dispute was successfully resolved because the company took active and transparent position on the issue (the campaign was organized according to the latest scientific developments in dispute resolution sphere). Their active CSR policy helped to create positive image of the company. Their advanced business integrity policy made them one of the leading companies in the region: many other companies use their experience and follow their example.

In the document called “Statute of Business Operation Principles” all the principles are categorized in the following way:

1. Goals and values – mission of the company are formulated and described in clear and simple terms, the slogan and the principles of personal conduct are set: “responsibility, flexibility, and persistence” – these are the official virtues for all employees.
2. Corporate governing – this article describes the position and jurisdiction of the Board of Directors (audit, CSR, reward, ad appointments), strict adherence to laws, accounting.
3. Ethical norms of business conduct – here standards of communication, confidentiality, internal information, conflict of interests, fraud, presents and improper payments, adequate resource usage, corporate opportunities, intellectual property, participation in politics, competition are set.
4. Staff – here matters of communication among colleagues and their active participation in life of the company are regulated; salaries, privileges, working conditions, industrial safety issues are considered together with equal opportunities and cultural diversity.
5. Consumers – standards of quality and advertisement policy.
6. Clients, suppliers, and business partners – honest, ethical attitude with respect to rights and interests is set as the standard for such communications.
7. Public activities – CSR is declared as necessary obligation of the company.
8. Relations with government – standards of such relation are formulated.
9. Environment – the company declares its concerns about the surroundings and aspiration to preserve the environment.

This is an example of comparatively elaborate and sophisticated business integrity concept. In fact, DIROL CADBURY represents the most complex approach to the business integrity issue. Perhaps, only another large foreign company in Great Novgorod can demonstrate comparable thoroughness of business integrity regulations – AMKOR-RENCH Company.

Box 1. Business Integrity and CSR in Russia – Historical Overview

Russia has long history of business integrity and CSR. This experience is unique because of the circumstances that accompanied its development. Well-known examples of high standards of business operation are directly related to the faith of people. Russian Orthodox Church had significant impact on people till the revolution of 1917. For example particularly famous were Old Belief merchants of the end of the XIX century. They were renowned for their attitude towards business ethics, corporate social responsibility, and charity. Their model of behavior was mostly paternalistic with religious reasoning. A merchant was perceived as a father of his employees. He was responsible for taking care of them as children. His other responsibility was to act in line with the Faith, which required honesty. Such business people were famous for keeping their word etc. In some respect, Old Belief merchants were representatives of a subculture. They were different from the majority of businesspeople of that time. Because of this difference they sometimes had problems of the same kind as foreign investors have in modern Russia. Still this tradition survived and now is recovering.

After the Great October Revolution of 1917, communist ethics consumed and transformed business ethics (in fact even common ethics was changed severely). Corporate social responsibility became the task of the state because all enterprises were state-owned. This way, large plants and factories used to provide a complex of services and non-financial support to their employees. Thus, they demonstrated particularly high social responsibility. This process was also supported by the fact that such enterprises were not limited in their social activities by considerations of profitability – it was ideologically motivated process. In this sense Soviet Union was a country of unlimited corporate social responsibility potential. All the resources could have been used for social purposes (even though a larger part was used in military sphere). Thus, soviet period was remarkable for significantly higher social activity of the state in general and large state-owned companies in particular.

At the same time there were obvious negative consequences. With time communist ethics was undermined by lack of responsibility. It was very difficult for people to protect interests of the society, the state on the whole because it did not lead to noticeable changes in their lives. People were not directly interested in fulfilling their obligations because the personal gain (for example salary) did not depend directly on the quality of their work. As a result, in situations of conflict of interests people tended to favor personal interests. Closer to the collapse of the Soviet Union “socialist” integrity was significantly eroded.

The transit period of the 90s became the time of anarchy and ethics crisis. People were trying to get a piece of state property to become owners again. It was very difficult to talk about business ethics at that time. Only after the period of initial redistribution of property people began to restore values of respectable business. In recent years many positive changes in this sphere took place.

First, businesspeople understood that business integrity in one or another form is necessary between business partners. Second, it became obvious that in the situation when the state can not be as effective in the social sphere as people expect, somebody needs to take additional responsibilities. As a result Russian businesspeople began to increase volume of corporate social responsibility.

The progress in the field of business integrity and corporate social responsibility implementation varies from one Russian region to another. To achieve significant results in this sphere people have to spare resources to such activities. This is feasible only in relatively stable and predictable economic and political environment. Meanwhile, economic situation in Russia remains quite difficult and this considerably limits the potential of businesses in the sphere of business integrity and corporate social responsibility.

1.1. Business Ethics

Business ethics is one of those controversial issues that have many components, many aspects of understanding, and many possible definitions and formulae. There are different approaches to identification of ethical behavior and different standards of implementation.

First, we should distinguish between formal codes of business ethics and informal. The first suppose that a compromise is explicitly achieved about what is good and what is bad in business practice. The latter is based on traditional approach: if some behavior correlates with traditions it is good, in the opposite case – bad. Both types exist on Russian territory.

Then we should acknowledge the principal difference between corporate codes of ethics (adopted and implemented by separate companies) and industry or professional codes of ethics. In the first case we deal with an initiative of one company and people subject to the code's regulation are employees of this company. In the second case people are united on the basis of different characteristics. For example, there is a code of conduct for Russian professional estimators (National code of ethics for professional estimators) in Russian Federation) adopted by National Council on Appraising.

Obviously corporate codes of ethics are easier to implement because a company has full control over this process. Thus, they are more practical. On the other hand, industry or professional codes of ethics are more influential for propaganda and popularization of ethical professional behavior purposes. It is safe to conclude that both types are important.

However, the key problem here is the influence of Russian reality on the theory of business ethics. For example, the research showed that Russian businesspeople (especially representatives of small business) usually utilize informal code of business ethics. Apparently, this is Russian cultural peculiarity – business ethics is not separated from general human ethics. In fact, they substitute norms of business ethics with principles of decent humane behavior. It may be OK in some situations, but at certain moment, a conflict may arise.

Another aspect of this problem – traditionally suspicious attitude of Russians towards formal laws that “are created to be avoided”. This may be another explanation why many businesspeople consider ridiculous to write down principles of ethical business conduct.

In case of both industry (or professional) and corporate codes of ethics we deal with a different problem: many interviewees noted that creating code of business ethics is useless, not worth efforts, because very few people will follow them and will definitely regret later, when somebody not as moral break the norms of such code in favor of personal interests. Any code of business ethics will work effectively only if absolute majority of people follow it. Thus, code of business ethics will be useful only if it is enforced. In this respect professional associations are weaker, because they are mostly voluntary organization and lack such enforcement mechanisms. On the other hand, development of corporate code of ethics is also related to some risk: a company may become “an ethical outsider” in a market.

Now let us move on to the analysis of the situation with business ethics in the Novgorod and Tver regions. The regions of the study are very different in this respect. The main reason for this – differences in economic development of the regions and virtually absence of foreign companies presence in Tver region (and consequently lack of foreign experience in the practices of Russian businesspeople).

In Novgorod region there are two major categories of businesses: domestic and foreign. Foreign businesses (such as DIROL CADBURY, AMKOR-RENCH, PFLEIDERER, GARO, etc.) follow international standards of business conduct. Their practices of business ethics implementation are also on

the international level – they distribute booklets with formal ethical principles and instructions, arrange trainings, etc.

Russian businesses can be divided also into two major groups: those following western experience and those who stick to traditional informal approach to business ethics. The first category is represented mainly by large and medium companies of Novgorod region (in Tver region extremely few businesspeople are well informed about foreign ethical practices). They may try to rise to the international level of business conduct because of ambitions and prestige associated with being ethical. Another explanation is that a Russian company wants to deal with foreign partners who are reluctant to get business with unknown partners (business ethics in this case act like a recommendation letter ensuring that it is safe to deal with some company). In both cases, such companies borrow foreign experience, process it and generate ethics policy. It is important to understand that even in such situation code of business ethics will not be 100% identical to western samples. Majority of businesspeople indicated that they consider simple copying not appropriate for Russian environment. Thus, they always adapt western experience.

The second category of businesses – those who stick to the traditional informal ethics – exists in both regions. Though in Novgorod regions such companies are slowly displaced by representatives of the first group, in Tver region they dominate. It is improper to conclude that they do not have business ethics standards. They have the same sort of behavior standards as smaller businesses in Russia have.

Smaller businesses both in Novgorod and Tver regions are not too much concerned about business ethics in Western understanding. Usually they have working traditions, which serve like ethics standards. They are related to relations with employees, customers, suppliers, business partners. They rarely deal with business-state relations, trade unions, or society. These traditions are bases on general principles of ethical behavior and attitude, are very simple, and are easily understandable by most people.

Certainly, such standards are informal. They are passed from the owner of a company to its employees through informal conversations, collective corporate events, etc. Employees who do not fit such standards are simply fired.

But even representatives of such approaches admitted that they at least sometimes think about higher formalization business ethics principles. Perhaps, if they dealt with foreign companies and saw what could be done in this sphere, they might get interested.

Once again, we need to focus on motivation that drives implementation of business ethics standards. There are two opposite schemes: it is useful to implement business ethics principles because it helps to win trust of prospective business partners; and it is useless to implement business ethics principles because it leaves business without defense against ethically uncleanly opponents.

1.2. Corporate Social Responsibility

In opinion of Russian businesspeople, CSR is very important. For many of them it is necessary for self-actualization and psychological peace and comfort. People who achieved some success in business still compare their lives with lives of their neighbors and frequently wish to help others.

It is possible to say that CSR and charity experience their Renaissance in Russia. Not only large companies sponsor different public events or social programs but also small businesses do what they can for society and support hostels, hospitals, schools, kindergartens, etc.

There are, however, several difficulties related to analysis of the situation with CSR. First, this term itself is confusing for many interviewees. It is interesting that more confusion is present in answers of the

interviewees from Tver region. This may be another sign, showing the differences in levels of business integrity development in these two regions.

Coming back to the definition of CSR, we need to take into account that many businesspeople define CSR differently. Besides there are significant variations in understanding of CSR by businesspeople and public officials.

Businesspeople outline several component of CSR. First of all, they include responsibility for providing their employees with decent salary and good working conditions. This understanding is based on the USSR concept of a plant that serves both economic and social foundation for a small town – in the past such “specialization” was widely spread. Sometimes large plants were built to give jobs to most inhabitants of such a town and to indirectly support their relatives and all the dependent infrastructure. Sometimes towns were built around large plants and were completely dependent on it. This way the larger the business, the more obliged the businessperson feels to provide higher salaries, more additional bonuses (medical treatment, recreation, etc.). Some large corporations partially preserved medical and recreation infrastructure, kindergartens (soviet heritage) and through specially priced services provide additional subsidies to their employees.

For example, Novgorodsky metallurgical plant invested a lot into improving working conditions for the employees: locker-rooms with showers and other facilities were built for all employees. The management of the company believes that such care returns much more: increased productivity, loyalty, and satisfaction with work.

Second, they mention responsibility of the company and its management for appropriate quality of their goods and services. Each commercial company exists to provide some goods and services to consumers and the interviewees understood that it is their responsibility to guarantee high quality of work.

Taking care of local community and its various problems often is also included into the CSR system. Still not all the interviewees emphasized this aspect – some representatives of foreign companies considered it to be outside of the CSR scope. Those who did spoke about this type of CSR, mentioned two aspects of such activities: CSR initiated by business and CSR requested by local administration.

The CSR initiated by business consists of more or less regular responsibilities for providing support to the local community and its infrastructure (usually facilities for sports and culture recreation, schools, hospitals, shelters, hospices, parks, streets, etc.). In this respect it is quite close to charity and often is confused with it. Some interviewees from business even included charity into CSR. Even though they admit the difference between charity and CSR, still some businesspeople consider charity as a form to take care of social issues and thus view charity as part of social responsibility of a company.

The CSR initiated by local administration is based on the specific understanding of CSR by public officials. The general perception of public officials is that CSR means taking responsibility for complex socio-economic development of the three components: people directly related to the company (support of employees and customers according to the laws and ethical standards), the state (fulfilling taxation and other obligations was frequently mentioned both by officials and businesspeople) and local community (support of infrastructure, sponsorship of public events, etc.). Interviewed public officials in general accepted such model of CSR with expected shift towards community development component.

The most interesting fact in this context can be revealed if we analyze what businesspeople think about understanding of CSR by public officials. The problem arises when we investigate real practices of CSR. Some interviewees from business reported that frequently local administration requests material support either for its institutions or public events and call it CSR. The contradiction here is caused by the

fact that usually the same businesspeople have to pay official taxes and duties for the same purposes. Such activities of local administrations are supposed to be funded by tax collections. So in most cases the situation is perceived as a form of corruption – e.g. “money collected twice, job done once, somebody definitely benefited”.

Such situation is mostly relevant to relations among small businesses and municipal administrations, perhaps because of unformulated CSR strategy of small businesses and poorly financed municipalities. For medium and large business it is not such a problem because they have significantly more influence on the regional or municipal administrations and can negotiate special conditions for their CSR plans. Besides, they can actually take advantage of such activities – this can become a powerful PR campaign.

Still sometimes, administration addresses businesspeople of different levels and asks them to support some public undertaking. In case of such request, most businesspeople do not dare to refuse even if in difficult financial situation. The fear of negative consequences, persecution is too strong (and unfortunately, there were vivid examples of such negative consequences of refusal). This practice is also widely spread in many other regions, where INDEM experts conducted research in the past.

Local administrations try to direct CSR activities into the spheres where the state needs it most. It is a widely spread practice all around Russia. In the majority of cases businesspeople do not refuse to support different events and activities initiated by administration. The interviewee mentioned that in most cases required amounts are not too large and are quite acceptable. However, such practice can easily create basis for corruption.

An interesting example of state management of private charity can be found in Tver region. When Governor Zelenin was elected he tried to direct charity at solving priority social problems. For such management a special charitable foundation “Dobroye Nachalo” was created. The head of the foundation is the wife of the governor. This Foundation analyzes the situation, identify priorities for support, and suggest business to concentrate their efforts and financial resource in the identified spheres. Apparently, experts of the Foundation have good persuasion skills, besides businesspeople do not want to quarrel with regional administration. As a result many entrepreneurs voluntary join the programs of the Foundation. To be precise, businesspeople also benefit from such co-operation because the staff of the Foundation prepares proposals about charitable support much more professional than most other applicants.

In general, there seems to be no need to force businesspeople to participate in CSR – they already have such desire and either implement CSR on their own or answer the administration’s call. The only condition most businesspeople set is to invest into something “visible”, in other words not to donate money but to provide some service (make repairs, provide food, other materials, buy equipment, etc.). The explanation is simple: people do not believe that money will get to the addressee because of corruption, embezzlement or fraud.

1.3. Social Partnership

Social partnerships (e.g. a situation when administration, business, trade unions, NGOs join forces for solving common social problems) in Novgorod and Tver regions are quite limited. Administration is not the best initiator of such activities, but no other force is ready to take on such responsibility right now. The civil society institutions are very weak (if present) and cannot actively participate in public life. There are very few cases when people succeeded to unite and to achieve positive results. Usually it is related to the public-state relations. One of the exceptions was the dispute of DIROL CADBURY and the local community. Even in that case the community relied on the administration.

There are also tripartite agreements among administrations, business representatives, and trade unions that regulate conditions of making business and terms of employment. But these agreements are mostly formal without real power because trade unions are rather weak now and other parties of the agreement cannot fulfill these functions.

1.4. Anticorruption

The problem of corruption is also an important factor that influences implementation and development of business integrity. Corruption can undermine and ruin many efforts and initiatives. Consequently it is important and necessary to build in a system of anticorruption measures into business integrity strategy.

To have this issue adequately addressed by business integrity standards it is necessary to ensure that people are aware of the problems, its scale, nature, and means of opposing.

In Novgorod region the interviewees spoke comparatively freely about corruption problems on regional and municipal levels of administration. The easiness with which people spoke about such latent phenomenon as corruption is quite unusual for Russia. Perhaps the explanation is high level of transparency of administration that was made ideological advantage of the region. Some interviewees refused to discuss corruption problem. The argument was that they are not directly involved into situation with corruption and know about it only from newspapers and rumors.

Many interviewees gave very concentrated and quite correct definitions of corruption. In some cases they considered corruption to be related mostly to bribery (money or some services, favors, and other non-monetary forms). In many cases the interviewees did not think that establishing good informal relations with public official is a form of corruption or can easily lead to it. Attitude towards corruption was generally negative even though people admitted that corruption sometimes helps to solve problems. The interviewees agreed that corruption is caused and leads to inefficiency of public administration and thus negatively influences the whole state and very many people.

In Tver region the interviewees experienced more problems with understanding and defining nuances of corruption. In general the interviewees tried to avoid speaking about corruption in the region.

When asked about the ways of opposing corruption the interviewees in Novgorod and Tver regions provided many suggestions, but almost none of them represented a systemic approach that could be used for anticorruption policy formulation. Almost all interviewees agreed that it is useless to oppose corruption alone – only collective actions can give positive results.

Most interviewees clearly understand that struggling corruption alone will inevitably result in oppression, additional sanctions from corruption public officials and greater losses due to unfair competition. As far as most interviewees admitted that it is necessary to oppose corruption and declared their potential readiness for such actions, it is possible to conclude that uniting of businesses on the anticorruption ground is possible. It just requires some methodological and practical support and direction. There are detailed developments of such collective strategies available for Russia¹

¹ “Business and Corruption: How to Combat Business Participation in Corruption”, INDEM Foundation, 2004 <http://www.anti-corr.ru/cipe/CIPEn.pdf>

1.5. Transparency/Openness of Business

This is also an important component to the business integrity system. The difference between the two terms in the headline for the purposes of this study is defined in the following way:

Transparency means clear way of operation of business, easy access to different financial and accounting data by special governmental agencies.

Openness means friendly and informative communications with customers, business partners, suppliers, clients, local community, and other interest groups.

Obviously, the information that is required by law to be provided to public official of specialized agencies should not always be available to general public. Insider information should not be revealed. This is the reason why we implement additional term “openness”.

The research and our practical experience show that only transparent and open business can follow business integrity principles. Non-transparent companies working with shadow economy schemes are vulnerable to corruption because a professional controller easily finds infringements and then a company faces a problem of either paying large fines or paying bribes to a controller to conceal the facts of violations.

Closed business also will not succeed because all its counterparts will feel uneasy communicating with such unclear business partner. Suspicions will undermine the achievements of implementing other components of business integrity system.

At the same time the present situation is very controversial. Most interviewees admitted that they would like to implement transparency and openness in their work, but in many cases it is impossible. First, the present system of taxation prevents businesses from leaving the shadow. Thus transparency is still only a goal for Russian businesspeople. Second, the common practices of competition, which frequently engage corruption as a means, do not favor implementation of openness either.

2. Administrative Environment for Promoting Business Integrity and CSR

Business integrity is a very complex phenomenon and cannot be “isolated” from other factors and circumstances of social life. Business always operates in some environment and to great extent is dependent on general economic situation in a country, political climate, administrative strategies, social situation (e.g. presence and quality of the middle class and other aspects), etc.

This chapter is devoted to a comparison of the situation in the two project regions – Novgorod and Tver. There are both similarities and significant differences between these regions. As a result the situations with implementation of business integrity and CSR in Novgorod and Tver regions have much in common and still are different.

For example, there are some problems with development strategy formulation in both regions. Further complicated by difficulties with state employment and professionalism of public personnel this strategy-making issue prevents regional administrations from maximizing efforts in the sphere of economic development.

General inefficiencies of public administration complicate and slow down economic growth. This is a favorable environment for development of corruption and unofficial relations. Both mechanisms exploit such administrative failures; stimulate growth of ill competition; and leave businesses without financial resources for reinvestments. Resulting losses in capacity lead to permanent struggling for survival of

businesses. Under such conditions they are not able to devote time, energy, and money to such issues as business integrity or CSR.

Business integrity is an important component of complex anticorruption strategy. Thus state activities in this field may be viewed as an element of anticorruption efforts. In some sense the state and businesses are on the same stage of integrity systems development: the state in the majority of cases does not have codes of ethics either. In this respect combination of efforts in the field of integrity promotion and implementation might be a fruitful undertaking for both participants.

2.1. Regional Administrative Situation

In Russia public and municipal administrations are operating without a clear long-term strategy explicitly formulated by the state and the society. Goals are set too vaguely and the priorities of public administration change too frequently for consistent and systemic work of the bureaucracy. Often it is not clear what criteria and factors need to be taken into account by policy-makers for pursuing the goals of strategic development. This leads to a surprising fact that frequently only demonstration of activity is needed from an official responsible for making decisions, because nobody is sure about the originally expected results. Besides, society has very little control over the development issues and consequently has very limited opportunities to stimulate strategy formulation process. It is possible to conclude that the administrative system on the whole is considerably disoriented, which make it difficult for public officials to understand all the importance of their work in general and separate functions in particular.

At the same time the administrative system is very frequently reorganized at all levels – federal, regional, municipal. Under such conditions both subordinates and superiors cannot predict their activities in the mid-term future (up to a year and more). Even if it can hardly influence their employment, it can surely affect their income.

As a result they don't have feeling of stability of their social position and consequently face stronger desire to take advantage of available opportunities and to prioritize personal interests above public in their work. Such attitude towards responsibilities of bureaucrats also results in corruption. This situation is typical for all regions of Russia where corruption significantly reduces efficiency of public administration. Novgorod and Tver regions are not exceptions.

Because of corruption public officials are not motivated (and frequently not able because of the confusion) to devise long-term strategies for the country, region, municipalities, etc. The proposed development plans are frequently not as thoroughly prepared as they should be: possible consequences, necessary for success resources, existing risks and possible ways to minimize them require much more attention than the available motivation can give.

This is one of the reasons why the present vector of economic development is so much short-term oriented. The goals of economic development are long-term and are too far in the future for artificially “near-sighted” bureaucracy. Furthermore, trying to enrich faster, bureaucrats extract as much unofficial rent from businesses as possible and do not care about future economic growth and subsequent benefits to the country, a region, or a municipality.

Present system of public administration in Russia hardly maintains business on the same level. It does not create conditions for further development. Because of different corrupt practices and instruments business is left without most valuable part of income – the part that could be used for business expansion, technology and working conditions improvement. Thus business is “frozen” in its present state, struggling for survival and not building its successful future or social basis for economic development of the whole country. Usually businesspeople are left without resources for investments after their informal obligations

to bureaucrats are fulfilled. This provides an explanation why in so many cases federal or regional officials and businesspeople are looking forward to foreign or some other kind of external investments. Businesspeople just do not have such spare resources themselves. And bureaucrats prefer foreign investments because it is easier to report about, gives quicker return, and provide more opportunities for unofficial enrichment in comparison to stimulating internal investments.

2.1.1. Novgorod Region

This situation is characteristic to Novgorod region too. One of the declared top priorities for regional administration is to make the region attractive for foreign investments. This trend has long history. At the time of perestroika, when the Soviet Union was going through a sequence of various reforms, Novgorod region became home for the first free economic zone “Sadko”. After the Soviet Union broke apart a period of turmoil for Great Novgorod followed. The policy of FDI attraction was revisited only when the present Governor Mikhail Prusak was elected as the head of regional administration in 1995.

Governor Prusak did very much to make the region attractive for investments. He made several very important changes in the routine administrative practices. Those changes may seem trivial for Europe or USA but are in fact unique for Russia. For example, it was necessary to make public administration more transparent and open. For this purpose special procedures and institutions were created. It is a remarkable situation for Russia: any person can easily get access to regional public officials including the Governor without special formal restrictions that can be found in most of the other Russian regions. In this respect Administration is much closer to investors in Great Novgorod.

What is more important, readiness and will to consider and possibly to solve problems related to investments are demonstrated. Even if it is sometimes impossible to influence the situation people feel that top public officials are trying to solve their problems. Such attention is certainly very favorable and leads to more positive perception of Novgorod region by investors.

Unfortunately this positive practice could not be transferred on relations with small local businesses. Obviously the central administrative bodies are not capable of processing such a number of everyday cases and issues. To achieve such goal, the same principles of work need to be implemented at all levels of administrative hierarchy and this process is not as successful. Meanwhile, it is much more difficult for small business to get attention to their problems. They rarely can address the top officials and consequently have to communicate with officials from the specialized committees, which have less influence and power.

To provide citizens with access to some most important information about actions and decisions of public officials, special regional law on the order of access to information (Novgorod Region Law #273-OZ, May 11th, 2004) was enacted. This law gives citizens rights to request information about decisions on different administrative issues (except issues constituting state secret) and obliges officials to react adequately and promptly to such requests. For example a person has right to request any document from an administrative organ. In this respect Novgorod region is one of the most advanced in Russia.

However, there are still some problems in this sphere. For example, people need to know exactly what document they want to get. Only then they will be able to request it. But it is not a trivial task. There are no full, clear, and easily accessible registers of official documents, correspondence, or decision for administrative bodies or public officials on different levels of administration. This hinders access to information. To be precise, there is comparatively easy access to information but administrative procedure still sometimes remain vague and not completely transparent. State auctions and tenders are examples of such problematic spheres. Opacity of the process is quite high.

There were also special organs or divisions inside traditional administrative bodies created that are responsible for communicating with businesspeople. For example, the Public Chamber with advisory jurisdiction to the Governor engages in consultations on key issues of the domestic economic policy. Special departments responsible for informing and assisting small business and trade were created inside the Economic committee.

The strength of such initiatives is to attract attention of the public and to ensure participation of wider public groups in decision-making on economic issues. Another advantage of this system is the ability to get easier and quicker access to information, or get a professional advice in an informal setting. For example departments for assistance to small business or trade in the administration provide people an opportunity to come to an official who is an expert in some specific administrative field and to clarify any issue. This is a great advantage of Novgorod region even if these structures have limited functionality because cannot influence the economic policy directly.

To minimize red-tape and bureaucratism special mechanisms simplifying work of business in the region were used. If a person or an entity has some clear idea of what they want to do, then they can address the Governor or his closest officers and communicate the idea directly. If they manage to explain what they want and why it is important for the region they get support for their ideas from the leaders of regional administration. In such a case everything becomes much easier for them because the Governor's authority means a lot to middle and lower level public officials. This is also a peculiarity of the region – almost everything in Novgorod region depends on the Governor.

This provides an explanation why it is more favorable for foreign business to work in the region in comparison with domestic small and medium enterprises. Foreign investors prefer large or at least medium projects. The majority of foreign companies in the region are large (at least in comparison with other regional businesses). It is easier for them to get to the Governor and to prove their individual usefulness to the region. In fact there is a practice of regular meetings of the Governor with the leading economically and socially (large number of employees) important businesses including both domestic and foreign companies. During such meeting they can plan future work, coordinate business and administrative strategies, solve some particular administrative issues, and agree on the participation of large businesses in economic and social development of the region.

2.1.2. Tver Region

In Tver region the situation is quite different. Approximately two years ago (21/12/2003) people elected a new Governor – Dmitry Zelenin. Before that he was a successful businessman – deputy general director of “Norilsk Nickel” corporation. He was working in Moscow and after election moved to the region himself and invited many new specialists from Moscow into his team. Because of this by many Tver inhabitants he is perceived as a representative of Moscow and a Muscovite. Anyway he was well informed about the difficulties and the problems of businesspeople and initiated serious reforms in the region.

His approach to administration is very different from what was done by the previous Governor of Tver region Vladimir Platov (1995 – 2003). The administration of his predecessor was famous for conservatism, corruption, and favoring interests of businesses closely associated with public officials. The results of its activities were several criminal investigations and now Platov and several other people are prosecuted and awaiting for trial. The decision is expected to be announced on the 8th of November 2005.

Unlike his predecessors Dmitry Zelenin set development as the top priority of the regional administration. Efforts are made to change the situation in the region and to make it more favorable for business. To attract investments into the region is the main goal of the new Governor and his team. Still

this is just the beginning of the process and it is difficult to predict the final outcome of the efforts. In fact there are just a couple of foreign companies in the region (unfortunately it was impossible to contact them to get additional information).

To achieve the declared goal – to make Tver attractive for investors – regional administration needs to overcome some obstacles. The most important of them is the fact that Tver does not have any competitive advantage over other regions in this part of Russia. Tver is located between Moscow and St. Petersburg. It takes approximately 2.5 – 3 hours to get from Moscow to Tver (depending of on means of transportation). In the struggle for investors Tver has to compete with Moscow, Moscow region, St. Petersburg, and even Novgorod region. It is very difficult to find and to develop a unique advantage that would help to make the region more preferable for investments. Besides Tver region faces all the problems of an average Russian region: poverty, lack of useful resources, lack of developed infrastructure, etc.

In terms of administration and business relation there are also some serious problems. As far as Tver is part of the Federation it is subject to federal laws and regulations. Because of it people in Tver region experience virtually all the same problems people in other Russian regions have.

Tver region administration is trying to assist business in solving these problems. This is done sometimes by regional laws and regulations, sometimes by coordination of some business spheres. For example the Department of foodstuffs, consumer market and services in regional administration is trying to direct the development of regional bread market. This Department does not interfere into business. Its efforts are directed at uniting the producers and persuading them to adopt some standardized rules for the industry, which would give opportunity for all the players in the market to develop and to operate successfully. There are several reasons why such efforts are considered important by local government.

Bread is a strategic product for Tver region, which is rather a poor region on the whole. Because of low income many inhabitants have to increase consumption of cheaper products like bread. Consequently people eat comparatively much bread and bread production is one of the key industries in Tver region. There are many producers in this market, competition is rather high. Public officials do not believe that pure market can appropriately manage relations among all the participants of bread market, which is viewed as strategic and socially important. Thus they are trying to stimulate collective actions, negotiating and problem-solving. Unfortunately, these processes are developing very slowly because of mutual suspicions, low level of collective activity of businesspeople, and inability of the Department to solve or at least influence other problems of the industry (excessive regulations and control by different state agencies).

Another example of the efforts by regional administration to assist economic development is organization of business-incubators. This initiative was started by the administration of Vladimir Platov. Such business-incubators provided businesspeople help with registration of a firm, renting a small inexpensive office with all infrastructures (phone, internet, etc.), small warehouse. These business-incubators were helpful for businesspeople starting their first business. However, even in business-incubators nobody can guarantee stability of relations between a businessperson and administration – people do not know if their contracts for rent and services are prolonged or not.

Administration also tries to help local business to overcome some growth limitations if they succeed to prove necessity and reality of modernization and expansion of production. This is done through budget subsidies in the form of credit interest compensations.

As far as transparency and openness of the regional administration is concerned, the situation is quite complex. First of all, it was difficult for the interviewees to evaluate the level of information transparency and openness of administration in Tver region. In many cases they were quite satisfied with it. Most

common practice among local business community is to get the information from civil servants through informal or personal channels and grapevine telegraph. That is why sometimes businesspeople underestimate the importance of information transparency. After additional questions some interviewees concluded that they do not get enough information from the administration.

For instance, there is not enough information about local tenders and auctions on goods delivery and service provision, paid by the municipalities and regional administration. Auctions are usually held in a closed-door manner. Very often such competitions are won by those who are closer to some influential civil servant rather than by those who offer better prices. Moreover all publications with conditions of competition are available to the public when it is already too late to prepare well for the contest or even to submit the application. Unfortunately neither civil servants, nor businesspeople understand how to improve the situation.

Till recently information transparency has not been a priority for public officials. They just did not consider necessary to provide public with information about their work because it was viewed as either confidential or unimportant. Even though the situation in Tver region is changing and administration formed by the current Governor Dmitry Zelenin is much more transparent than the previous. Still mass media receive access to such information mainly through personal networks. Those journalists who are accepted to the local “pool” – group of loyal journalists who are invited to all press-conferences and meetings in the administration – have most reliable and up-to-date information about situation in Tver region.

The interviewed journalists indicated that the new administration of Dmitry Zelenin is much more transparent and open in comparison with the previous one. Probably this is the reason why people are generally satisfied with the level of transparency and openness in the region – they just observed a remarkable improvement in this sphere. Thus, the level of information transparency and openness in the region may be called quite sufficient compared to the neighbor regions but not high enough to fight against corruption.

2.2. Civil service and government employment

For Russian government, employment is one of the most painful issues. Several key factors make the situation difficult.

The attractiveness of civil service in Soviet Union was traditionally based on high stability, good salaries, high social status, and guaranteed high pension. In this case, mostly the regular level of civil service is meant; certainly higher positions in the hierarchy provided a different range of opportunities and motivation.

When the soviet system collapsed, the situation changed dramatically. Inflation and redistribution of financial flows left civil service without previously available resources and without the best people. Because of lack of financial resources, civil servants have been poorly paid for the last 15 years. The salaries were lower than for comparable positions in business. They were rarely indexed and consequently could not follow the pace of inflation. As a result, civil servants frequently did not earn enough to maintain their previous level of well-being. Sometimes they even did not earn enough for normal living. Such financial problems inevitably influenced all other aspects of civil service. For example, many initiatives and undertakings in the sphere of public administration either failed or were not initiated because of lack of professionalism or weak motivation.

In the last 5 years, the situation started to change. Understanding that the country needs active and efficient public administration began to spread among the policy-makers. By now there are attempts to

improve the image of civil service and to attract new prospective personnel into public administration sphere.

In Novgorod region government employment is still an issue. Because of systematic attempts to decrease federal subsidies into the regional budget, expenditures on civil service purposes were kept as low as possible.

It is important to note, that notwithstanding the desire to curb public administration expenditures the observed tendencies in this field were not favorable for achieving such goal. For example, the number regional administration staff before 1999 was decreasing, however, after 1999 there was constant growth. This way during the period 1999 – 2004 regional public officials increased more than 35% (546 persons in 1999 and more than 748 – in 2004). This growth can be attributed to the creation of new administrative structures such as:

- Department for Justice of the Peace assistance (more than 80 persons at the moment of creation)
- Environment and natural resources protection committee (more than 30)
- Gostekhnadzor – state technical supervision department (more than 30)
- Auditing department (9 persons)
- Oblast' election commission (more than 30)
- Regional energy commission (more than and dozen)

On the 1st of January 2005 there were 2775 municipal officials in the region. And according to some expert estimation the number of federal officials in the region is more than 2.5 thousand people.

The only way to cut expenses in this sphere under such conditions was to prevent increase of salaries. Because of this, regional public officials now are earning considerably less than their federal colleagues are. This results in psychological tension and low level of satisfaction with their life among regional public employees. Almost all regional officials who were interviewed in Great Novgorod complained about low salaries not only in comparison with business but also with their federal peers. They also admitted that this definitely influences their morale.

Another consequence of such disbalance in salaries is that the professional level of an average regional public official is comparatively low. Many interviewees complained that it is extremely difficult to keep good specialist, especially young ones. For example, a young prospective person enters civil service after graduating a university. He or she does not have practical experience; all the knowledge and skills are mostly of theoretical nature. For some time he or she is trained in the sphere of the professional specialization, acquires experience, new skills, advanced understanding of the subject. In addition he or she gets new contacts, acquaintances and after approximately a year of work in administration finds a much more interesting and better paid position outside civil service. Thus, regional administration is constantly training new staff, investing into human capital, facing additional expenses of working with unprofessional personnel, and permanently missing professionalism.

The situation in Tver region is very close with one exception: the situation has been quite stable at least for the last two years. Almost like in the Novgorod region the Governor tries to cut on budget expenses and consequently average salaries for regional bureaucracy are lower than salaries of federal employees. At the same time some public officials mentioned during the interviews that salaries in regional

administration are lower than at the municipal level. Obviously the explanation for such situation lies in more jurisdictions of municipalities over funds distribution. The result is lower motivation of regional bureaucracy and lower attractiveness of civil service.

Recently a very interesting solution was tried by the administrations of both Novgorod and Tver regions: they tried to invite successful businesspeople to occupy top positions in the hierarchy. Some interviewees view such an option as one of the preferable and even necessary solutions to the present crisis of regional public administration. Unfortunately, it did not lead to significant increase in efficiency. Perhaps this happened because of lack of specific experience that can be acquired only in the process of career development in the civil service system. Another explanation can be that there was a clash of opposite attitudes: former businesspeople in comparison with career bureaucrats are accustomed to different principles and motivation of work. Still this tendency demonstrates developing integration between administration and business.

2.3. Codes of conduct for public officials

Traditionally code of conduct for public officials was one of the top priorities considered by soviet propaganda. The “Moral codex of Communism Builder” was the key document in this respect. It set the standards of behavior for communists and public officials were responsible for being communists. Thus, this sphere was automatically regulated.

After the collapse of the soviet system the situation changed dramatically. Old moral values stopped working and there was no clear new system to take its place. Under such conditions the importance of a code of conduct for civil servants cannot be overestimated.

Novgorod region was among the first to start development of regional code of conduct for public officials. A draft code was created with assistance of a specialized TACIS program. However, the process of preparing a regional law was suspended in 2002 when a draft federal code of conduct for civil servants was introduced to State Duma. With difficulties the first draft was approved on 17th of May 2002. After that a long pause followed and on the 9th of March 2005 the second draft did not get support in Duma. It failed because the proposed law caused too much controversy among the deputies.

Meanwhile on the 12th of August 2002 President Putin signed Decree #885 “General Principles of Conduct for Civil Servants”. This Decree was supposed to fill the gap and to formalize the ideas about the expected behavior for public officials. The Decree contained 18 general principles of the proper attitude of bureaucrats to their responsibilities. The main problem of this Decree was that it did not provide any mechanisms for implementation and enforcement. That is why it was criticized for being insufficient and helpless to change the situation.

The situation in Tver region is approximately the same – there were attempts to start the development of a code of conduct for civil servants but these attempts did not lead to passing a corresponding law by regional legislature. Some ideas are scattered across different laws, orders, instructions, and regulations, but they are not capable of creating a system of principles or standards.

Thus, by autumn of 2005 there is no federal code of conduct for civil servants in Russia. There are no regional codes of conduct in Novgorod or Tver regions either. Public officials are guided by their personal systems of moral values, traditions, and standards of behavior promoted by their direct superiors.

2.4. Formal and informal components in business-state relations

Recently there has been a tendency of constant expansion of legal regulation of business activities, relations among business and state, competing businesses, partners, suppliers, and consumers. The state

does its best to standardize different aspects of such relations and frequently does not take into account that in many cases it is impossible even from theoretical point of view. Nonetheless, such attempts are still done. Such excessive regulation leads to several negative consequences:

1. Public officials responsible for implementation of different regulations are overloaded, staff is growing, regulatory goals still not achieved.
2. Public officials cannot make all people to follow regulations, some of which are clearly questionable or controversial. However, they can force some people. In such cases people try to avoid such discrimination and if the price of the problem is high (either financially or emotionally and psychologically) this creates ground for corruption.
3. People lose trust in the rule of law because some of the laws are obviously not adequate.
4. People have to solve most of their problems not on the basis of legal rights and responsibilities, but on the basis of informal relations with corresponding public officials who are supposed to make the sought decision.

In the research “Business and Corruption: How to Combat Business Participation in Corruption” conducted by INDEM Foundation in 2004 special attention was paid to the problems of small and medium business. The researchers were particularly interested in the circumstances of business-government relations, corruption in those relations that can develop under certain conditions, and other aspects of informal relations among businesspeople and public officials.

The results of the INDEM study demonstrated that in many situations public officials motivate businesspeople to build informal relations with bureaucrats. This motivation is latent: nobody forces an entrepreneur to use corruption or other forms of improper relations, but it is demonstrated that constructive attitude to the problem-solving can be achieved only under informal framework.

These conclusions were completely confirmed by the interviews in Great Novgorod and Tver. It was difficult for the interviewees to identify who initiates informal interaction. Furthermore, many interviewees had difficulties with identifying informal component in their official relations with state organs. They just could not distinguish proper practices from improper because the latter are so common, widely spread and are recognized as normal interactions by most people. This is an important problem because anticorruption initiatives require detailed understanding of the situation from the active part of a campaign.

This is the general situation in Russia and it is quite applicable to Novgorod region. Only some of the decisions related to business are made by public officials under strict adherence to laws. These are mainly decisions related to the initial stages of business growth. According to the interviewees, it is comparatively easy to register a new business, especially a small one. Quite often it is possible to license some of business activities. However, in the licensing sphere informal relations begin to play the leading role. For example, in some spheres it's impossible to get license without special relations with public officials. It is especially applicable to the highly monopolized spheres of business such as production and supply of spirit and alcoholic beverages, in timber industry, wholesale trade.

In the commercial real estate sphere, informal relations are also frequently the key factors that predetermine the final decision of an official. The most problematic issues here are allocation of land for commercial constructions, sale and lease of production facilities or offices, etc. In this field the situation is under control of Great Novgorod administration. Financial and industrial group of Telman Mkhitarian also can significantly influence the final decisions.

Exact adherence to the norms of laws in relations among state and businesses is quite a rare case in general. Business should expect such attitude only in very narrow spheres of activities. Usually, such relations are based on informal relation favoring some particular officials and monopolists (for information: in most spheres of business in Novgorod region competition among businesses is very low because of high degree of specialization and monopolism).

Another factor that has negative impact on the situation in the sphere of rule of law is quite problematic perspective of legal defense of rights by businesspeople. The problem is caused by inadequate operation of judicial system. Juries are overloaded with commercial cases. It takes much time to get a case to jury, it costs much to get professional services of a lawyer, operation expenses incurred during all this period can be too high.

In fact only the interviewees representing large businesses reported about successful experience of judicial defense of their rights. For such companies the overall effect was very positive: they got respect and authority, in the future they experienced less problems of the same kind (their “fame” protected them).

As far as it is economically not feasible for smaller businesses to use legal procedures for defense of their rights, it is much more rational and sensible to rely on informal relations and thus further undermine the rule of law.

The situation in Tver region is quite the same. Official decisions are rarely made just on the basis of formal rules and regulations. Usually informal component of decision-making process is quite significant. Because of defects in laws it is impossible to do everything according to laws, frequently norms of laws can be used to get exactly the opposite effect – to exercise pressure on business, to gain control over it, to get uncompetitive advantages and to get rid of competition.

For example in the near past there was a widely spread practice to use defects of laws to initiate bankruptcy processes against successful companies for the purpose of buying them at inadequately low price and then reselling piece by piece with great profit. This procedure could also be used to get rid of the stronger competitors in the market. After the recent changes in laws, which made such abuse more difficult, the problem was partially solved.

Informal relations are also the key to success in tenders and competitions for providing goods and services to the state (both regional and municipal levels). Only those companies that have close contact with or somehow associated with public officials have all information in advance. Besides reliable information and recommendations about terms of contracts and expected parameters of work such companies sometimes get inside information about competition etc. Obviously under such conditions outside companies are to lose.

At the same time the interviewees reported that the least problems with informal relations are encountered in the sphere of registration and licensing of business. However, even in this field licensing of work in highly monopolized markets (production and selling of alcoholic products, lumber industry, etc.) it may be necessary to have informal contact with officials to get a business started.

Conclusion

The conducted study demonstrated several important moments related to the subject of the study:

Business integrity is a very complex social, economic, and managerial phenomenon. There are many factors that influence the general situation and implementation of particular components of business integrity. To understand the situation with business integrity we need to conduct thorough analysis of Russian economic, administrative, and social life, and take into consideration other factors. For example, business integrity is dependent of the degree and rationality of state regulations that may drive some

businesses into shadow. Also social tension in a society may lead to growing desire of businesses to relief the situation by implementing different business integrity and CSR mechanisms.

In Russia business integrity interferes with many aspects of corporate activities. Business ethics, CSR, anticorruption, transparency and openness are the key issues to be considered by a company planning to implement business integrity system. Right now businesses in Russia are in a very complex and controversial situation. For implementation of business integrity they need in fact to correct many malpractices that are extremely widely spread and sometimes are even perceived as normal and legitimate by businesspeople. For example, unofficial payments to some employees or accidental labor law violations.

Understanding of business integrity principles varies significantly among businesspeople. Business integrity is a system of measures and standards that can be very adaptive to the environment, where a business operates. At the same time, business integrity can be somewhat misleading. To avoid such confusion, businesspeople should: analyze what business integrity strategies implement their suppliers, partners, and clients; compare with their own attitude; and take precaution in case of significant divergence. Many businesspeople complained that sometimes they want to act ethically but are afraid to lose to the competition or business partners because their counterparts may understand business integrity differently. Thus this is an important problem that needs to be addressed.

Russian model of business integrity is very fragmented. Russian business operates in very difficult environment. It has very few spare resources for any initiatives not related directly to survival. Business integrity and CSR implementation depends on opportunities and accidentally available spare resources. As a result business integrity implementation in practices of different businesspeople varies dramatically. There are also significant regional differences, which also limit the potential of separate corporate business integrity programs (for example corporate codes of business ethics). Still such corporate codes of business ethics can be even more helpful then industry or professional (non company specific) codes of business ethics. The main problems of the latter are the problems of implementation and enforcement by business associations or other industry or professional organizations.

Implementation of business integrity standards requires significant efforts of the entrepreneurs. Implementation of business integrity standards requires some restructuring and reorganization of internal relations in a company. It is a long stage-by-stage process.

Business integrity has mixed nature for Russian businesspeople. On the one hand it limits opportunities for business – unethical and other improper (from business integrity perspective) decisions become unacceptable. Thus, business integrity is lowering competitiveness of a business. On the other hand following business integrity standards is like a good recommendation letter for a business. This way it can significantly simplify communication with business partners and consequently create a competitive advantage. The way how business integrity principles are implemented can maximize or minimize these two aspects.

Government on all levels (federal, regional, municipal) is a very influential player in this sphere. It should create infrastructure, general regulation, favorable conditions, and encourages businesspeople to implement and develop business integrity standards. Government should not force businesspeople to implement business integrity standards of participate in CSR activities. The present practice demonstrates that if such an approach is used, it opens wide opportunities for abuse of power by administration.

To stimulate and support implementation of business integrity standards all forces in the society need to unite efforts and should work collectively. Only collective efforts will pay back. Otherwise individual losses of the pioneering companies in this sphere may demotivate them. Public and consumer oriented

NGOs should request implementation of business integrity principles in business practice. Development of business integrity to the extent it is related to the consumers and clients can and should be supported by public opinion and consumer will. Business association and business oriented NGOs need to join efforts and should formulate joint strategies of business integrity implementation among their members – such networks will serve as examples and “targets” for non-member businesses.

The most effective approach to opposing corruption by resources of business is implementation of collective anticorruption strategy. Complex several stage strategy is recommended for maximum efficiency. Such strategy should be based on collective efforts of businesses, administration, and society. Right now civil society is just developing in Russia, that is why anticorruption strategy should involve maximum anticorruption potential of the country.

Corporate social responsibility in Russian context has special status and meaning. Nowadays the state frequently is not able to carry out its social functions successfully. In such situation, CSR becomes one of the few instruments of stabilization in society. It is a strategic task for Russian business to support society and to contribute to collective development of the country. The state should be very careful not to transform CSR into some kind of soviet administrative tool. This way the idea of CSR based on civil society principles can be undermined and sabotaged. CSR was and should stay voluntary activities. This way it will have special meaning for businesspeople, society, and the state.

Corruption can become a serious impediment to business integrity development and implementation. To avoid such outcome it is necessary to incorporate anticorruption mechanisms into business integrity systems.

Understanding of corruption problem by businesspeople varies. In many cases it is incomplete. That is why further education of businesspeople in this sphere is required.

Anticorruption strategy formulation is the most difficult task for businesspeople. They have difficulties in setting the priorities in this sphere. For this purpose emphasis in education should be placed on live examples and practical measures.

Appendices

Appendix 1. Brief Socio-Economic Description of Great Novgorod region

Economic potential of Great Novgorod region is based on developed industry, agriculture and building trade, with the total value nearly 60% of the gross regional product.

Gross product of the region came to 50 610 million rubles in 2004², which equals to 0.3% of Russian GDP. It is worth mentioning here that during the last five years Great Novgorod share in Russian GDP remains pretty stable – approximately 0.3%. Still economists claim that this number can increase up to 3.33% in 2005. (See Table1)

Table 1. Gross regional product (GRP)³

	2000r. report	2001r. report	2002r. report	2003r. report	2004r. estimated	2005r. forecast
Russian Federation	7,3057E+12	9,0407E+12	1,08175E+13	1,32011E+13	1,6778E+13	1,77511E+13
GRP in actual prices (mln. rubles)	21476	28216,9	31858,2	41444	50610	58792
GRP in comparable prices (% to the previous year)	102,9	112,2	98,2	109,4	105,1	105,4
GRP per capita (thousands rubles)	28,9	38,9	45	60,3	73,1	85,7
Share in Russian GDP	0,29%	0,31%	0,29%	0,31%	0,30%	0,33%

Industrial output of the region forms around 4% of the total industrial output of the North-Western federal district of Russia.

Chemical, timber and woodworking industries are among the leading branches of the regional economics. Other major industries are food production, power industry, mechanical engineering and ferrous metallurgy. Altogether, they comprise 95.2% of the volume of output of the regional industries. More than 40% of gross regional product is formed by industry output and nearly 26% of workforce is employed in industry. Overall industry brings 84% of all regional revenues.⁴

Since 1997 there is a stable positive dynamics in industry production output observed. Average annual growth rates in industry are somewhat near 108%. Thanks to the beneficial tax rates, quick modernization of the industries and rapid growth of high-technology machinery production positive growth remains permanent in almost every branch of production sphere.

During the previous 11 years, there were 1007.2 million USD⁵ attracted to the region. (See Figure1) To attract domestic and foreign investors all tax benefits were kept at their previous year rates. Besides, to

² <http://www.niac.natm.ru/econom/site/econom/index.htm>

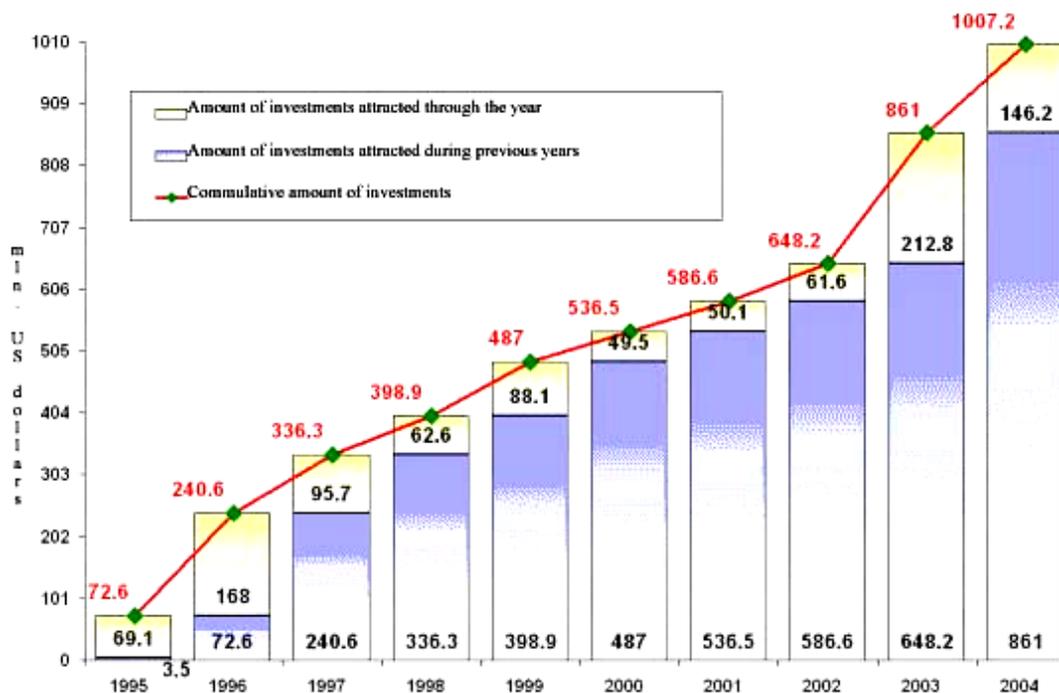
³ Data from the Novgorodskaya oblast' economic committee website, <http://www.niac.natm.ru/econom/site/econom/index.htm>

⁴ <http://www.niac.natm.ru/econom/site/econom/index.htm>

⁵ Data from the Novgorodskaya oblast' economic committee website, <http://www.niac.natm.ru/econom/site/econom/index.htm>

preserve the existing level of investment special investment insurance fund with a capital of 100 million rubles was created in the FY2005 according to the regional budget.

Figure 1. Amount of foreign investments



According to the statistics, regional budget received 146.2 million USD of foreign capital investments in 2004. Major amounts of money were directed to the timber industry (61.4%), woodworking, pulp and paper industry and food industry (32.9%). More than a half of all investments are of Finnish origin (43.4%).

During first two quarters of FY2005 nearly 70 million USD were attracted to Great Novgorod region. There are forecasts saying that by the end of the year total value of all investments will be equal to 140 million USD. Thus there will be registered a slight reduction of the investment rates. It will estimate only 92% from the previous year volume⁶. Nevertheless, Novgorod investments form nearly 2.6%⁷ of the total amount of investments received by the North-Western federal district.

Among major investors are Finland, Great Britain, Denmark, Italy, Poland, and France. Currently there are 23 various projects with the joint capital. Aggregate amount of money invested equals to 200 million USD.

As for trade operations, main partners in export are China, Finland, Estonia, Belarus, Kazakhstan, and Ukraine. Main importers are Finland, Germany, China, France, Sweden, Poland, Ukraine and Belarus. During the first 6 months of 2005 total foreign trade turnover was 526.6 million USD, Export turnover has

⁶ Data from the Novgorodskaya oblast' economic committee website, <http://www.niac.natm.ru/econom/site/econom/index.htm>

⁷ Research-and-development center "Techno-progress", published http://www.tehnoprogress.ru/lenta/5_26.07.2005

increased in 150.8% compared to the previous year; import turnover increase equal 130% compared to the same period in 2004. Western countries tend to remain major trade partners of the region. Their share in exports is 91.2% and 84.4% in imports. Trade relations with CIS members are less developed.

During the last five years, regional foreign trade has doubled. Main subjects of export are products of petrochemical industry, timber products, ferrous and nonferrous metals, and foodstuff. Commodity circulation in 2004 was 194 million USD; 74.9% of which fall on exports, 25% - on imports. Great Novgorod region has increased volumes of foodstuffs, raw materials, mineral oil, wood and machinery imported, decreasing at the same time export of timber, ferrous and nonferrous metals. There is also a tendency to increase export of processed materials rather than raw stuff.

Great Novgorod region imports paper and cardboard – 29.3% from foreign trade turnover; machinery, including electric – 18.7%; plastics and related products – 10.5%; organic chemicals – 7.6%; various foodstuff – 5.5%⁸.

In 2004, 416 organizations were involved in foreign trade. International contracts are currently signed with firms from 80 foreign countries.

Regional workforce equals to 360,000 people – 4.7% of active workforce of the federal county. Registered unemployment rate in 2004 is 2.1% of all economically active population. In 2003 unemployment rate was higher -6.3%. Average rate in the federal county was 7%. 39% of the people employed work in public and municipal organizations, 43.7% - in private sector, 9.9% - in organizations with mixed ownership, 6.8% - in joint ventures, 0.6% - in non-profits.

Regional budget is growing steadily since 1995. By 2003 it has grown 6.5 times and in 2004 was equal to 3.451 million rubles⁹.

Great Novgorod region is one of 11 subjects of federation that form North-Western Federal District. Great Novgorod region consists of 21 district, 10 cities, 15 towns and 3735 villages. Density of population is 12 people per square kilometer. More than 70% of the population is urban.

Great Novgorod region can be considered pro-governmental region. The most powerful political party is party of power “Edinaya Rossia”. There are 22 local and 84 primary party affiliates in the region. Current governor of Great Novgorod region, Mikhail Prusak, is the leader and active member of “Edinaya Rossia” branch in Great Novgorod region.

Region takes active part in social and economic reforms. It is involved in the TACIS project on increasing the potential of regional reforms. In 2005 administration of the region will be implementing 41 federal programs and sub-programs (24 of which are of social nature, including 8 aimed at medical treatment improvement) and 35 regional programs (22 – social ones)¹⁰. Main issues of invigoration of local economics and social environment are covered in the Concept of socio-economic development of the region.

⁸ Data from the Novgorodskaya oblast’ economic committee website, <http://www.niac.natm.ru/econom/site/econom/index.htm>

⁹ “What about investments?”, *Novgorod Time* #2, 15.01.2004, <http://novtime.niac.ru/pressa.nsf/9c4e65e433225bbc3256e1c002ad029/30db354829498df9c3256e1b004c0292!OpenDocument>

¹⁰ <http://www.mironov.ru/Information/17247.html>

Great Novgorod is an educational center. 23 800 students are currently enrolled in 11 regional universities. The largest university in Great Novgorod region is Novgorod State University named after Yaroslav the Wise.

Development of small and middle-sized businesses is declared as one of the major priorities for the local economic policy. In 1993 complex program on small business support was launched by the local administration. Four medium-term stages of the program were brought into life and successfully implemented throughout 11 years. The fifth stage is currently on the agenda. Main focus of this stage is further comprehensive municipal assistance to all types of private enterprise in the region.

There are 2 581 small businesses in the region. They employ 20% of local workforce. The following numbers describe the input of the small business into the total regional industry product (% to the aggregate volume): industry – 34.8%, building and assembly jobs – 44.7%, paid services – 29.9%, trade and catering – 25.2%, wholesale trade – 59.7%.

According to the laws of Russian Federation Great Novgorod region as a subject of Federation exercises international and foreign-economic activity, which include diplomatic, social, educative, cultural programs and projects.

International activities are aimed at expansion of trade and political relations with various foreign cities, at participation in numerous international programs. Countries of the Baltic Sea area (Finland, Sweden, Denmark, Norway, Poland and Germany) are most reliable and old partners of Great Novgorod region.

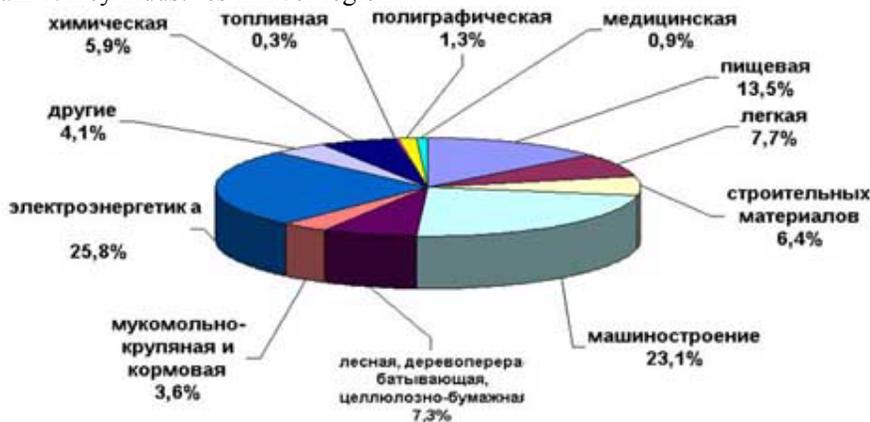
There are also permanent relations with major European organizations such as European Council, Council of ministers of northern states, SIDA, SIPU (Swedish institute of public administration), SALA IDA (Swedish association of municipalities), Konrad Adenauer Foundation (Germany), etc.

Appendix 2. Brief Socio-Economic Description of Tver region

Gross domestic product of the region in 2002¹¹ was equal to 58 775.7 million rubles which equals to 1.82% of GRP of the Central Federal County. But it is worth noting here that during the last five years Tver region share in gross regional product has declined from 2.52% in 1998 to 1.82% in 2002. This reduction is caused by slow production volume growth and increasing share of other subjects of federation (particularly Moscow city and Moscow region) on regional markets.

As far as the gross volume of production is concerned Tver region is ranked 40th among other Russian subjects of federation and 10th in the federal¹². Industrial production is the leading branch of local economy. It includes 13 key industries and employs one fourth of all. Key industries are the following: mechanical engineering, power industry, and light and food industry. Forestry, woodworking industry, pulp and paper industry, chemical, whiteware, glass and printing industries (see diagram 1).

Diagram 1. Key industries in Tver region¹³



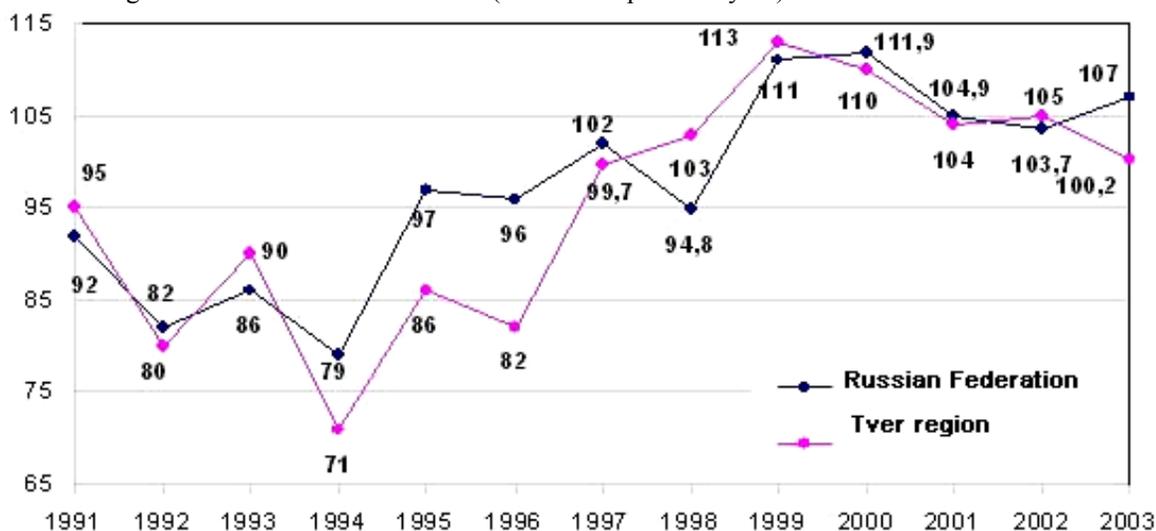
Tver region is a typical old industrial region with the strong textile and machinery engineering industry. Huge share of these industries in the regional economics caused considerable decrease of production during the crisis period: compared to 1990 by 1996 only 34% of all factories and plants were operating. As for any considerable growth – it started in 1999-2000 and was influenced by the substitution of foreign goods by domestic goods production (see diagram 2). In 2003 gross volume of industrial production came to only 48% from the level of 1990 (average Russian ratio more than 2/3). It is obvious now that the region lacks domestic resources for the further development. In money terms gross volume of regional industry production totaled 65.5 billion rubles.

¹¹ Unfortunately Federal service of statistics in Russian Federation doesn't provide any data on GRP later than year 2002.

¹² Federal service of statistics in Russian Federation. Collection «Russian Regions 2004»

¹³ Tver and Tver region. Regional information portal, <http://www.tverregion.ru/rus/tverregion/promishlennost/ind.htm>

Diagram 2. Production volume ratio (in % to the previous year)¹⁴



There are 45.5 thousands of economic units registered. 43 500 of those are corporate bodies, 2000 – subsidiaries, affiliates, branches and representatives.¹⁵ There are also 54 000 of self-employed entrepreneurs¹⁶.

From 1998 to 2004 gross volume of production increased 1.7 times with average rate of growth of almost 7.7%¹⁷. 90% of all production comes from 446 large and middle companies.

Share of lame-duck industries in the region is almost 39.3¹⁸. Main factors that constrain production development are: lack of finance, customers' financial insolvency, deterioration of facilities, and lack of qualified work force (death rate among middle-aged employable males in the region (18 per 1000) is the highest in Central federal district).

Volume of retail trade in 2003 was 28.2 billion rubles of 113.2% in 2002 prices¹⁹. As for the level of retail trade turnover per person Tver region is on the 52 place in Russian Federation.

Unemployment rate remains one of the lowest in the district for quite some years already. In 2000 it was 9.4% of the total number of workforce, but already in 2003 it plummeted to 0.9% and grew a little bit in 2004 to the level of 1,1%. There are 478.1 thousands of people working in the region, among those 431.6 thousands or 90.3% are employed in huge and medium businesses.

¹⁴ Social atlas of Russian regions/ Portraits of the regions, Tver region, from <http://www.socpol.ru/print.asp?f=/atlas/portraits/tver.shtml>

¹⁵ Local statistics department of Tver region, <http://web.tvcom.ru/tvstat/>

¹⁶ «Why we don't have any money? Thoughts on the numbers in Tver budget in 2004 », «Veche Tveri», 18 February 2005, <http://www.veche.tver.ru/index.shtml?news=1770>

¹⁷ Crafty number. Official denial of the article «Why we don't have any money? Thoughts on the numbers in Tver budget in 2004 », «Veche Tveri», <http://www.veche.tver.ru/index.shtml?news=1959>

¹⁸ «Why we don't have any money? Thoughts on the numbers in Tver budget in 2004 », «Veche Tveri», 18 February 2005, <http://www.veche.tver.ru/index.shtml?news=1770>

¹⁹ Federal service of statistics in Russian Federation. Collection «Russian Regions 2004»

Income of consolidated budget of Tver region in 2004 equaled to 14 629.2 million rubles, which is a bit less than average in the federal district (14 994.75 million rubles²⁰). However compared to the previous year growth of 26.3% was registered.

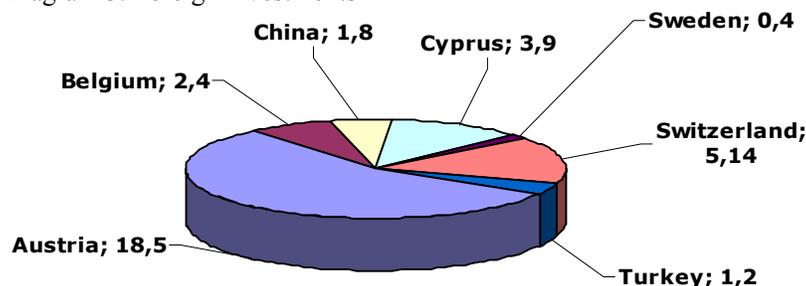
Tver region is on of those regions which permanently receive grants and subsidies from federal government. In 2005 there were 78 228 thousands rubles²¹ assigned from federal budget. Federal debt of Tver region by January 1st 2005 was equal to 2 272.5 million rubles²².

In 2004 26.7 billion rubles came from various sources (including federal budget subsidies) to the regional budget. 34% of all money was redirected to the public enterprise “Kalininskaya nuclear power-plant”.

Major foreign investments go to the chemical and food industries. In 2005 gross volume of foreign investments is forecasted to be equal to \$33.34 millions while in 2004 gross volume of foreign investment came up to more than 28 billion rubles or nearly \$1 billion. Compared to 2003 gross investments increased 14%.

Among major foreign investors are Austria, Switzerland, Cyprus, China (see diagram 3)

Diagram 3. Foreign investments



Foreign trade regional turnover in 2003 was \$283.9 millions, including export - \$129.5 millions, which made up 107.0% to the level of 2002, import turnover was \$154.9 millions or 129.8%²³ to the previous year.

Main goods to be exported are machinery and products of light industry (see diagram 4).

Diagram 4. Structure of Tver region export²⁴

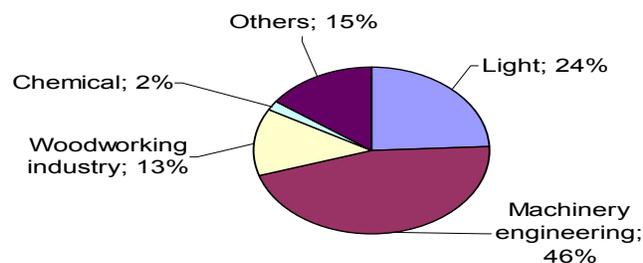
²⁰ Estimations are based on the data from interregional comparison of local budgets in 2004 (from the website of the Ministry of Finance, www.minfin.ru), http://www.region69.gov.ru/files/ispol_2004_3.doc

²¹ <http://www.regnum.ru/news/novgorod/493884.html>

²² Information on budget administration of Tver region in 2004, from http://region.tver.ru/site_news.html

²³ Federal service of statistics in Russian Federation. Collection «Russian Regions 2004»

²⁴ http://www.dtmos.ru/pic/files_33/file_4.pdf



Machinery – 47%, foodstuff and raw materials – 21%, light industry production – 14% and chemical products – 8% are traditionally among main products imported²⁵.

Tver region is situated in North-western part of Russia and is one of the subjects of federation comprising Central Federal District. Population of the region is 1.5 million people. There are 36 administrative districts, 11 towns, and 12 cities. Tver is the capital of the region with the population of 400 thousand people.

Tver region is one of the most educated in the country – the 6th – it has one of the highest ratios of number of educated people per 1000 people. Majority of students attend public schools and universities.

Number of small businesses per 100 000 citizens is declining gradually. In 2003 there were 503.1 businesses per 100 000, but in 2004 this number decreased to 475.9. From the perspective of managing business Tver region is ranked 45th in Russia²⁶.

As much as 6960 small enterprises were registered in the region in 2003. That makes 17% of the total number of businesses. Small businesses are involved in trade and catering – 49% of all small businesses, in production sphere 17% of small businesses are occupied, in construction – 14%. Besides, there are a lot of small enterprises in agriculture, transportation, medicine, science, real estate, consumer services. In April 2003 “Regional program of support for small and medium businesses of Tver region in 2003-2005” was adopted.

In 2003 Tver administration prepared and launched a program of economic and social development of the region for the years 2004 – 2010 named “From transitional economics to the developed market economy”. Main target of the program is to transform Tver region from subsidized subject of federation into self-sufficient region with dynamic social and economic development and sustainable livelihood. It is also targeted at increase in efficiency of public administration, involvement of citizens in political decision making, etc.

Fight against corruption hasn’t yet become universal practice in Tver region. However several law enforcement agencies’ employees were already sued for excess of powers.

²⁵ http://www.dtmos.ru/pic/files_33/file_4.pdf

²⁶ Small business in Russia: conditions and factors of development, VCIOM, issue №194, <http://www.wciom.ru/?pt=44&article=1201>

Appendix 3. Methodology of the research

The project devoted to such complex social, economic, and political issues as business integrity, business ethics, and corporate social responsibility requires complex and multilateral technique.

To provide reliable and up-to-date results two basic approaches were combined. First, analysis of documents devoted to different aspects of life in the project regions. The documents analyzed included analytical reports of other research organizations, federal and regional laws and regulations, case study of different regional situations etc. This part of work was intended to provide a starting point for further analysis of the situation in the project regions.

Second, a field research was initiated to obtain information on the present situation, understanding, and attitudes of people in the project regions towards the problems considered by the research. Such information gathering was based on interviewing technique. The reasons for such methodological approach are obvious: interviewing is a highly flexible sociological method and the sociological instruments can easily be adapted to the circumstances of the research.

Among various interviewing techniques non-standardized in-depth interviewing was chosen. This variation of interview methodology deserves additional attention because of unfairly rare usage in Russia. INDEM Foundation is one of the organizations actively utilizing in-depth interviewing technique in its research projects.

Management of the non-standardized interviews

The research was conducted with the use of contemporary sociological methods and tools.

Instructions and Guides for interviews were developed by Vladimir L. Rimskiy (sociology department head, INDEM Foundation) together with Sergey A. Parkhomenko (senior research fellow, INDEM Foundation), who was also responsible for the arrangement of the interview process. The interviews were conducted by the same experts in two regions located in the North-West part of Russia – Great Novgorod and Tver regions. Local expertise on interviewee selection and interviewing coordination was provided by the Administration of Novgorod Oblast' and the Administration of Tver Oblast'.

The project was devoted to business integrity, business ethics, and corporate social responsibility in two Russian regions. These conceptual problems were operationalized and the goals of the research were defined as to find out through interviewing how the interviewees perceive, define, understand, and overcome (if needed) the following issues:

- Relations of businesspeople with their partners and competitors;
- Relations of business and government organizations;
- Transparency of businesses and administration;
- Norms of business ethics;
- Codes of ethics as part of business and government activities;
- Corporate social responsibility;
- Social partnership;

- Corruption as part of public-private relations;
- Capability to oppose corruption in public-private relations.

To reach the purpose of the research expert set the goal of describing the issues listed above as they are seen by the interviewees and to find out which tools may businesspeople, society and government use to promote business integrity, business ethics, corporate social responsibility. Moreover, experts planned to identify how transparency of governmental institutions, codes of ethics, legislative norms and level of income of the civil servants, etc. may influence this process.

According to the goals of the research interviews were conducted in two Russian cities – Great Novgorod and Tver. Both cities are capitals of Russian Federation members. The researchers used non-standardized in-depth interviews in both cases. In Great Novgorod interviews were held from the 16th to the 18th of August. There were usually five interviews every day each lasting from 45 minutes up to 3 hours. Overall 31 people were interviewed during three days. Excellent organization of the process facilitated the work of the researchers and helped them to reach extremely high productivity. Moreover is influenced the interviewees in the most positive way and motivated some of them to take part in the research.

In Tver interviews were held from the 19th to the 21st of August. There were usually four interviews every day each lasting from 45 minutes up to 3 hours. Overall 21 people were interviewed during three days.

The researchers worked with the following categories of interviewees in each of the project regions:

- Civil servants responsible for administration;
- Former civil servants;
- Officials of the local ministries and bodies, heads of the units and their deputies;
- Small, middle and large business leaders (at the regional level);
- Heads of local business associations;
- Deputies of regional legislative branch of power;
- Deputies of regional capital legislative branch of power;
- Well-known journalists, sociologists and professors of universities.

While preparing to the interview series experts had talks with the potential interviewees aimed at revealing both levels of eagerness and ability of people to become participants of the research. Besides, during the preparation stage time and place of the interviews were arranged and the schedule of the interviews was drawn.

Every potential interviewee was familiarized with several facts mentioned below.

1. Experts – interviewers are representatives of the widely-known both in Russia and abroad organization, INDEM foundation, which has been studying corruption and related to it problems

in Russia since 1997. The goal of the research is to describe existing situation and practices in the most thorough and profound way.

2. The research has absolutely practical orientation – its results will form the basis for the future recommendations on implementation and development of business integrity, business ethics, corporate social responsibility, reduction of corruption, and achieving of more transparent public-private relations.
3. None of the facts collected about the interviewees will be available to anybody but interviewers and project managers. Report about the research will be published but only with generalized information about the participants.

If the potential interviewees agreed with the terms, they were informed that an interview might last 1.5-2 hours and required some concentration from the person. Furthermore the talk was to be recorded and interpreted afterwards. Due to the time constraints experts decided not to interpret all the interviews but only the most significant parts.

The interviews were purely sociological. They had nothing in common with legal investigations. No specific facts that could have led to any criminal or administrative proceedings were mentioned during the interviews. Any information provided during the interview is absolutely confidential; that is why only anonymous statements are given in the reports.

All the interviewees had considerable experience in various spheres of human activities: public administration, business and business associations, parties and political representation, NGO sector. There were also people who started in business but then were employed in the government, or vice versa. Separate group of interviewees was formed by those who came to the civil service from Komsomol organizations (at Soviet times). Most of the interviewees are educated people with degrees.

Though interviewees tried their best to give most detailed answers to the majority of the questions, there still existed some information they couldn't share with the experts due to its confidentiality. Nevertheless all the interviewees were extremely co-operative and spoke eagerly about problems they faced.

Among those interviewed were several businessmen who worked on probation abroad, but the majority of them is currently working in the companies with foreign capital. But mostly the interviewees studied in former Soviet Union. Though there were several younger businessmen and civil servants.

Some of those interviewed started their own business because they wanted to support financially their families during hard times of mass cut-backs.

Opinions of people interviewed varied according to their education, experience, gender and age. But overall this diversity helped to form an unbiased and clear idea of the actual state of affair in relations of public and private sector.

As the interviews were done only with the representatives of urban private business, agricultural problems were not covered by the research.

Brief description of the non-standardized interview methodology

Non-standardized in-depth interview is one of the most widely used contemporary sociological tools. The main peculiarity of such interviews is that they are arranged with the help of just a vague plan with the main guidelines and recommendations rather than a rigorously structured program. Usually non-

standardized interviews are used for the exploratory purposes in case when researchers deal with very complex and controversial subjects. It is safe to say that this research is of this nature.

Lack of formalization makes the mass use of this technique impossible. As a result numbers of interviewees decreases considerably. But at the same time the thoroughness of the research increases, providing the experts with surprising number of details, explanation of hidden processes, factors and causes often invisible to the outsiders. This very reason influenced the choice of this technique by the researchers.

In non-standardized interviews problems are analyzed indirectly and are seen in the light of the personal opinion and understanding of the interviewee. Thus the interviewee becomes an inside observer or a primary observer who investigates the problem. Non-standardized interview allows usage of not only personal experiences but also experiences of other individuals closely related to the subject of the research who transferred their knowledge to the interviewee.

Non-standardized interview is more of a conversation where the interviewer adapts the course of the talk to the interviewee's logic and understanding of the subject. But still this type of interview is not completely free because the interviewer is concentrated on the topic of the research and trying to avoid any deviations – he stimulates the interviewee to give a thorough description of problems and subjects relevant to the research.

Non-standardized interview resembles an informal, even friendly talk of people interested in the same subject. Such a procedure allows the interviewees to feel free to express their thoughts and feelings on the topic.

In his/her part the interviewer should be ready to listen attentively without any a priori judgments and without expressing any personal points of view. The interviewer's duty is to ask quite short, almost leading questions and thus to help the interviewee to talk about points of the researcher's interest. Sometimes to reach better results interviewer has to follow the interviewee's logic. Non-standardized interview presumes high level of professionalism.

Questions may be asked in any order with the emphasis on the topics that either interviewee or interviewer considers being important. It is preferable to concentrate on the issues that are most comfortable for the interviewee and which he feels competent in.

The interviewer should not interrupt the interviewee even if some arguments were already acknowledged. Repetitions of arguments and judgments facilitate understanding of nuances and details of the problems studied. Moreover, repetitions may demonstrate high importance of some aspects or signal that it is time to finish interviewing.

Non-standardized interview should be recorded and interpreted.

If the interviewees are chosen correctly their opinions will be very close to the opinions of the social groups they represent. As a rule, systematic selection of interviewees may reveal the distinctions between various opinions within social groups.

Longevity of the interview can not be limited. During this research a standard time of 2 hours was chosen for planning purposes, but in reality the interviews lasted from 45 minutes up to 3 hours.

An interview can be finished if:

1. Interviewee feels he/she had said everything concerning the topic;

2. Interviewer feels the interviewee has nothing to add;
3. Interviewer notices regular repetitions on the interviewee's answers;
4. Interviewer realizes that there are no more new judgments, arguments, etc.

Non-standardized interviews are interviewee-oriented, that is why they may be affected by the subjectivity of the interviewer reinforced by the subjectivity of the guide and reports. But nevertheless researches conducted using this tool gives outstanding results. Objectivity of the method can not be absolute as well as if we use any other sociological methods. Experts must not rely on the words of one interviewee and should consider any information reliable only if:

- One and the same source repeats the same information in different words but of the same contents without being inconsistent;
- Same information is repeated by various sources;
- Information received allows to describe logics of decision-making or decision-implementing;
- Information received allows making forecasts with the high degree of reliability.

Objectivity of conclusions and recommendations of the research conducted using the tools of non-standardized interviews increases if subjective probability of them being truth is estimated as high by the researchers. Objectivity of the judgments depends heavily on the professionalism and experience of the experts.

Another important criterion of objectivity is practical applicability of its conclusions and recommendations. If the research succeeds to reveal real strategies, purposes and methods of any social activities one may consider the level of its importance and meaningfulness to be high. This explains great use of non-standardized interview techniques in modern sociology.