

# **Private Sector-Led Collective Fight against Corruption in Transition Countries**

The challenges and associated solutions for companies working together in collective action to fight corruption, in transition countries of Eastern Europe and Russia

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## **Abstract**

This essay provides a three-fold qualitative analysis of the challenges faced by companies working together in collective action: (1) obstacles based on the nature of collective action, (2) obstacles based on the nature of business, and (3) obstacles based on the specifics of regional politico-economic dynamics. For the latter, the essay focuses on the transition economies of Eastern Europe and Russia—where corruption is widespread and yet precedents for collective action within the private sector are limited. Among many proposed solutions to each of the challenges, there are several noteworthy and novel approaches. These include a private consulting service of regional experts to organize and coordinate collective action from inception to a fruitful ending, as well as a mid-way collective action pledge. The essay also recognizes the latent efficacy of business associations for overcoming collective action problems and for bypassing obstacles posed by state capture in transition economies. While the challenges for collective action are great to begin with, even greater in the business setting, and may seem next to impossible in transition countries, anti-corruption efforts are hollow without the private sector. Nothing is impossible, and a successful private sector-led fight against corruption is not impossible either. Although many daunting obstacles exist in the plight against corruption, private enterprises possess both the tools and incentives to successfully mitigate them.

## Introduction

The abuse of power for private gain—in other words, corruption—is a timeless phenomenon that continues to plague modern society. The multitude of anti-corruption efforts to date typically involve national and local governments, media, civil society and other public organizations. Without the involvement of businesses of all shapes and sizes, the fight against corruption neglects its supply component, rendering the dynamic one-sided. Meanwhile, firms in many countries continue to ‘purchase’ government contracts, benefits, regulatory avoidance, public revenues, and influence over legal and political processes (Gray and Kaufmann 1998). In order to succeed, anti-corruption measures must be undertaken as multi-stakeholder efforts among private, public and non-governmental parties. In other words—a collective action effort should be a significant component of anti-corruption worldwide, where the term ‘collective action’ refers to a collaborative and sustained process of cooperation among stakeholders (World Bank Institute, hereafter WBI).

Yet the fight against corruption is a public good in the economic sense because it is both non-rival and non-excludable. It is non-excludable because when one business subverts a corrupt regulatory environment via counter-bribery lawsuits, that business cannot prevent the competitor from reaping the benefits of an environment where regulators are less corrupt. It is also non-rival because the quality of the regulatory environment does not automatically deteriorate with every additional business that enters the market.

The challenges businesses face working together in collective action to fight corruption can be viewed from three perspectives: (1) the nature of collective action; (2) the nature of business; (3) the nature of regional dynamics. Anti-corruption and collective action are examined through the regional lens of a transition country with high levels of state capture, endemic bureaucratic corruption, and low levels of trust. In Eastern Europe and Russia, previous experience with private sector-led anti-corruption has been very limited. Yet the need to fight corruption is as acute as ever. Employing the three different analytical approaches, this essay analyzes the challenges engendered by anti-corruption’s status as a public good, and offers associated solutions.

## Collective Action and Corruption in Transition Countries

Countries of Eastern Europe and Russia have a particularly high level of corruption as ranked by Transparency International (in indicators like Corruption Perception Index, Bribe Payers Index), illustrated in World Bank’s Governance Indicators, and found in nearly every examination of corruption in transition. For example, Central European and Baltic countries are 3 points behind the developed countries (on a 10-point scale). Corruption in Eastern Europe and Former Soviet Union is perceived to be higher not only than in Central European and Baltic countries, but also higher than in the emerging markets of China, Brazil and India.

*Table A.1. Corruption in Transition Countries*

Country	Corruption Perception Index Score, 2008	Country	Corruption Perception Index Score, 2008
Armenia	2.9	Czech Republic	5.2
Azerbaijan	1.9	Hungary	5.1
Georgia	3.9	Poland	4.6
Belarus	2.0	Bulgaria	3.6
Moldova	2.9	Romania	3.8
Russia	2.1	Estonia	6.6

Ukraine	2.5	Latvia	5.0
Kazakhstan	2.2	Lithuania	4.6
Kyrgyzstan	1.8	<b>Average</b>	<b>4.4</b>
Tajikistan	2.0		
Uzbekistan	1.8		
<b>Average</b>	<b>2.4</b>		

Table A.2. Corruption in Select Developing and Developed Countries

Country	Corruption Perception Index Score, 2008	Country	Corruption Perception Index Score, 2008
China	3.6	USA	7.3
Brazil	3.5	UK	7.7
India	3.4	France	6.9
<b>Average</b>	<b>3.5</b>	Germany	7.9
		Japan	7.3
		<b>Average</b>	<b>7.4</b>

Thus far, very few cases of corporate collective action aimed at reducing corruption have taken place. The Center for International Private Enterprise (CIPE), alongside INDEM Foundation, OPORA group and regional business coalitions are most prominently active in anti-corruption efforts. The Russian Regional Coalition for Reform (RRCR), formed in 2002 by 200 local business associations<sup>1,2</sup>, is a well-established Russian example. Although RRCR has achieved substantial results for regional businesses and small enterprises by reducing administrative barriers that lead to misconduct<sup>3</sup>, it has not had an impact on the national level. Corruption in Russia and among Russian multinational corporations overseas remains to be seen as a problem<sup>4</sup>. Golovchinskiy et al. (2004) argue that current organizations for purposes of collective action already exist in Russia, but their potential is not fully utilized.

Because corruption manifests itself in a myriad of ways depending on local customs, practices, economic forces, industrial sectors, and political structure, a regional analysis is most appropriate because “no one size fits all” (Brew and Moberg 2006). At the same time, many problems the companies in transition countries face vis-à-vis collective anti-corruption efforts are common to companies worldwide. Therefore, this essay focuses extensively theoretical and practical challenges of corporate collective action, followed by the analysis of additional challenges particularly prevalent in transition economies of Eastern Europe and Russia.

<sup>1</sup> It was founded via a cooperation of the Center for International Private Enterprise (CIPE), USAID, Russian Union of Business Associations–Opora and the Russian Chamber of Commerce and Industry

<sup>2</sup> See *Strengthening Local Democracy in Russia*, CIPE report for most recent information regarding business association’s activity in Russia

<sup>3</sup> Achievements publicized on the website. For example, the Primorsk coalition collectively defended entrepreneurs when it learned that 90 percent of small business inspections uncovered “violations,” often leading to bribes, with circa 80 percent of the cases resolved to the satisfaction of entrepreneurs through the legal system. Legal hotlines were set up by the Krasnodar coalition have helped solve over 800 conflicts between business people and inspectors. Similarly in Irkutsk, over 450 entrepreneurs who received consultations managed to prevent illegal inspections and penalties; Saratov coalition led a campaign against the adoption of weak laws with the potential to create corruption. The local government recognized the problem and formed an official advisory board, including members of the coalition, to review laws for vulnerabilities to corruption

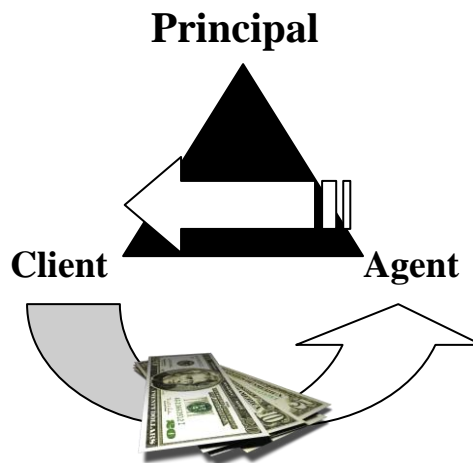
<sup>4</sup> For support, see Bribe Payers Index of Transparency International, or *Improving Business Standards in Russia: Actions and Results* by International Business Leaders Forum (IBFL)

## Corruption and Collective Action in Literature

In most of the research to date, the notion of collective action with respect to corruption is seen as a predatory collusion of several actors that results in organized resource-stripping of the state. Gehlbach (2006) argues that the organized ability of firms to hide revenues from tax authorities accounts for variation in collective-goods provision in Eastern Europe and the Commonwealth of Independent States. Yet despite the negative evidence, there are no grounds to believe that the impact of inter-business cooperation is destructive by nature. Doner and Schneider (2000), for instance, evaluate a positive role that business associations play to development, concluding that business associations can promote efficiency in crucial development issues such as strengthening property rights, facilitating coordination, reducing information costs, and upgrading worker training.

Such research reiterates the conclusion that any effort at tackling corruption without engaging businesses is hollow by definition. It would lack the major actor in principal-agent-client corruption triangle and the supply-side of petty corruption equation, as illustrated below. It would also lack the major supplier of bribes in the case of grand corruption and state capture.

Figure 1. Principle-agent-client diagram with supply and demand flows



Because businesses are not inherently destructive to development, there are numerous specific incentives that businesses and governments share both. Reducing the costs of corruption is one of them. Allied together, businesses can improve the environment in which they operate; less corruption would also increase government legitimacy.

The economic costs of and negative business consequences of bribery are very high and multi-faceted, as illustrated in Box 1. Given such high economic costs and risks of

### Box 1. Costs and Risks of Bribery

#### Bribery is a cost:

- a) increases cost of doing business
- b) misallocates talent to rent-seeking activities
- c) lowers quality of products and services
- d) hinders innovation and technological development
- e) hampers development of a market
- f) drives away investment
- g) small enterprises are especially vulnerable because it imposes a regressive tax for activities in trade and services

#### Bribery is a risk:

- h) can cause loss of reputation
- i) can jeopardize mergers and acquisitions
- j) can jeopardize ability to conduct capital market transactions
- k) can lead to debarment from tenders offered by governments and development banks

Based on Gray and Kaufmann (1998); *Fighting Corruption Through Collective Action* (WBI)

corruption, from a business perspective, the overall goals of fighting bribery through collective action are based on (1) decreasing the costs of operation and the costs of information, and (2) minimizing the risk in bidding while improving public image (WBI). According to *Business Against Corruption* report (International Business Leaders Forum, hereafter IBFL), collective action offers an effective way to create a level playing field on which to compete and increases the impact on local business practices beyond the capacity of any one company.

The examples and mechanisms of collective action can be characterized by enforcement and duration, therefore including Integrity Pacts, Anti-Corruption Declarations, Principle-Based Initiatives, and Certifying Business Coalitions:

Figure 2. Typology of Collective Action Against Corruption

		Enforcement and Oversight Level	
		Ethical commitment	External enforcement
Duration	Project or transaction-based	<p><u><i>Anti-Corruption Declaration</i></u></p> <ul style="list-style-type: none"> <li>▪ Anti-corruption principles bind signatories to not engage in corruption during project</li> <li>▪ Public commitment leads to enforcement ‘by honour’ and peer pressure</li> </ul>	<p><u><i>Integrity Pact</i></u></p> <ul style="list-style-type: none"> <li>▪ Formal, written contract between customer and bidding companies</li> <li>▪ Bidding and implementation processes monitored by external monitor</li> <li>▪ Sanctions apply in case of violations</li> </ul>
	Long-term initiative	<p><u><i>Principle-Based Initiative</i></u></p> <ul style="list-style-type: none"> <li>▪ Ethical principles bind signatories to not engage in corruption in the daily business</li> <li>▪ Public commitment leads to enforcement ‘by honour’</li> <li>▪ Initiative can advocate anti-corruption with government</li> </ul>	<p><u><i>Certifying Business Coalition</i></u></p> <ul style="list-style-type: none"> <li>▪ Compliance-related prerequisites for membership</li> <li>▪ Adoption of membership requirements checked by external audits</li> <li>▪ Members get certified or will be excluded</li> </ul>

Adapted from *Fighting Corruption Through Collective Action—A Guide for Business*, slide 29

## Overcoming Problems of Collective Action

The primary challenge to fighting corruption as a group comes from ‘collective action problems.’ A collective action problem applies to a situation in which everyone in a given group has a choice between two alternatives and where, if everyone involved selects an Individualistically Rational option, where one’s total individual benefit is maximized. In this situation, the outcome will be worse for everyone involved, than if the actors were to choose the second-best option. Figure 3 models game-theory matrix with decisions to cooperate (C) or defect (D) by an individual firm to demonstrate that the individualistically rational option is defection. The argument in favour of defection closely follows the Olsonian logic regarding collective action: “rational, self-interested individuals will not act to achieve their common or group interests” (Olson 1971). This is also frequently referred to as ‘zero-contribution thesis’ and a ‘collective action problem.’

Figure 3. Game Theory Matrix Illustrating the Collective Action Problem.

		Everyone else	
		Cooperates (C)	Defects (D)
I	Cooperate (C)	+100, +100	-101, -99.9
	Defect (D)	+101, +99.9	-100, -100

Adapted from Talbott, *Collective Action Problems*

However, Olson also asserts that this logic does not apply when the number of individuals in a group is quite small, or when there is coercion or some other special device to make individuals act in their common interest (Olson 1971). Therefore, overcome the problem of individual rationality requires the presence of incentives beyond the regular benefits to be received post-collective action. Promotion of ethical reputation via engaged media publicity could be one of such additional incentives.

Yet there might be cases when no such additional incentives are easily found. Then, Olsonian suggestion is for the number of individuals participating in collective action to be low. In practice, such solution would mean addressing collective action on a local level. Not only would this involve local companies that are more interested in improving local business environment and contributing to local development, but also involving local governments that might be more flexible and open to negotiations.

From counter-Olsonian point of view, certain individuals will be less individualistically rational—and therefore have a higher sense of a public good. Thus, certain managers of certain corporations will be more inclined to cooperate than others (Ostrom 1990). Key to the challenge then becomes a system where such managers are (a) aware of potential collective action initiatives, and (b) are able to effectively signal other similar managers to consider cooperation. The success of such a system relies on widespread publicity of the collective action initiative, as well as functioning local organizations and mediation chapters that would not turn down a company that has a potential interest in collective action. An inherent implication of this analysis is that first steps in collective action are the most challenging<sup>5</sup>. Therefore, promoters of collective action like the World Bank Institute should be prepared to consistently undertake same attempts with same groups of companies repeatedly year after year.

Another serious challenge of collection action is non-compliant behaviour, also referred to as ‘free-riding’. As seen from the previous graph of prisoner’s dilemma, the individuals are likely to defect while wishing for everyone else to cooperate. However, the situation is different when prisoner dilemma (PD) games are repeated over time. In repeated PD games, the outcome of mutual cooperation or mutual defection frequently depends on the first several rounds of the game or on random decisions of the players. While random decisions cannot be controlled for, ensuring that the first several group meetings produce maximum possible cooperation via intended confidence building is within the abilities of a skilful mediator or external monitor. Then, the mediator needs to enhance trust via learning, with the goal of changing the trust from ‘ascribed’ to ‘earned’ trust (Polenske 2004), thus changing the modes of behaviour and deviating the assumptions of the zero-contribution thesis.

Lastly, typical policy solution for collective action problems is presence of enforcement. The logic of the prisoner’s dilemma is that ‘honour systems’ of collective

<sup>5</sup> As articulated by Doner and Schneider (2000, p.262): “basic dilemma of collective action: everyone will be better off, but no one wants to go first”

action are less likely to be successful. This leads to highlight the importance of trust for collective action, among all the stakeholders. Trust reduces the costs of rule enforcement and therefore directly supports collective action (Raiser 2003). This is a particular challenge in transition countries, which are characterized by low level of government legitimacy and personal trust. It takes time and patience to build confidence in general; particularly so, amongst competitors (Brew and Moberg 2006).

On one hand, a solution would be to advise thorough confidence-building among parties. This reinforces the need for external facilitation delivered by a business organization, government body, or a non-governmental organization. Not only could such an organization provide a safe haven and foster an environment of trust (Brew and Moberg 2006), but such organization could also facilitate negotiation by providing negotiation expertise and help determine local priorities from a neutral perspective. To keep on track and build trust and confidence, Brew and Moberg (2006) suggest focusing on issues that have important current impacts on business and community and then conducting a series of individual and group meetings to explore the opportunities.

However, given the short sighted outlook the actors have, operating in the unstable economies of transition countries, such suggestion may not always be practical. Instead, a potential the solution to the issue of trust is to initiate collective action through business associations. Business associations have overcome the problems of collective action already (Doner and Schneider 2000, p.266), and the valuable time and energy of the groups involved could be shifted from establishing trust and confidence to the next steps, therefore accelerating the process. Business associations are more than the sum of their parts, able to get member firms to do things together they would not otherwise do (Doner and Schneider 2000). In a sense, business association in Russia, for instance, can be seen as institutions. The higher the institutional strength of a business association, the less of an obstacle there would be to implement collective action. Collective action against corruption should therefore be promoted at business associations with high member density, extensive selective benefits that apply to members only, and effective internal interest mediation system, because these are three components which define high institutional strength of business associations (Doner and Schneider 2000). RRCR is an example of successfully involving regional business associations<sup>6</sup>. However, the promotion of collective action among Eastern European business associations can also be tricky, and this is further developed in the analysis of transition-specific factors.

Another potential solution is enforcement-related—making signing the provision signatory. The reason for the lack of trust in the first place may often be the scepticism about truthfulness of other stakeholders in the initiative. Mandatory signing greatly reduces the risk of free riding and noncompliance, hence also raising trust among stakeholders by providing a binding level of commitment. This is a good solution, but does not overcome the very first lack of trust. A business associations approach is a potentially better solution if the parties have not established communication.

## **Addressing Business Challenges**

Theory of collective action could be applicable to firms if they are viewed like benefit-maximizing individuals. Yet there are several other stand-alone contextual determinants, and there are challenges faced by firms due to specific nature of business: profit-maximization, short-term outlook, competitive (not cooperative) managerial human capital and an engrained corporate culture.

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<sup>6</sup> See *Strengthening Local Democracy in Russia*, CIPE report for details of local collective action among business associations

Firstly, total benefits from collective action have to outweigh the associated costs for a business to even consider a collective action approach. The question of funding and finance, coupled with short-term objectives, is very important. The evidence shows that significant resources are needed to ensure the process and implementation of collective action (WBI, slide 78). This is especially crucial in light of the current financial crisis when the objective of many firms is to cut costs, not spend more. Costs arising from the coordination of the initiative—research, meetings, translations, experts, facilitation, travel<sup>7</sup>—should be borne equally among the companies. Additionally, the costs should be minimized without sacrificing essential components. Financial contribution from each stakeholder involved is essential to overcoming a problem of trust and free-riding related to collective action, but does not overcome the basic financial problem in the first place.

The lack of expertise with financial and organizational management of collective action leads to higher costs and that is the crux of the problem. Therefore, an obvious solution is human capital with skills in executing collective action at the lowest cost. It is interesting to note that Ostrom's application of the theory of the firm to collective action generated a vision of entrepreneurs who would see collective action as a profitable business idea:

“An entrepreneur...recognizes an opportunity to increase the return that can be achieved when individuals are potentially involved in an interdependent relationship...then negotiates a series of contracts with various participants that specify how they are to act in a coordinated, rather than independent, fashion” (Ostrom 1990, p.40).

To the best of my knowledge, there are no established businesses in Eastern Europe that saw profit potential from getting firms rallied around the anti-corruption cause. On one hand, this casts doubts on Ostrom's interpretation. On another, this potentially offers a solution: a regional consultant(s) that provide a service of organizing and managing collective action from A to Z. He or she could serve as a person to centrally provide all the services of collective action—research to involve the corporations that have the largest financial interest and would benefit most from minimizing their bribery expenses; go-between the stakeholders; organizational cooperation to set up meetings and communication; finding legal experts; and so on. If such a consultant was paid based on performance, with the instalments in stages<sup>8</sup> and not based on the time spent, the results-oriented approach would be attractive for firms to engage. Such consulting services could also include the confidence-building sessions suggested in the previous section.

Second, very few firms consider long-term horizons for strategic restructuring if it does not involve immediate profits. Even though there are numerous ethical and reputational pressures that have become more important for multinationals, the current financial crisis without a doubt distracts the attention of CEOs away from corporate governance. From another perspective, if one of the consequences of the current financial crisis will be greater transparency on behalf of the companies and governments vis-à-vis investments, spending, operations and other costs, then one of the first steps in the direction of corporate governance opens the door to anti-corruption.

Before undertaking collective action, the recommended corporate achievement is to implement standards individually first (WBI). However, this eliminates numerous

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<sup>7</sup> The costs associated are outlined in more detailed in Brew and Moberg (2006), and in *Fighting Corruption Through Collective Action* (WBI)

<sup>8</sup> Stage one – once an initial meeting of all stakeholders took place; stage two – once all stakeholders committed to certain goals; .... Last stage – once collective action has resulted in a change of laws, on a solid achievement of an objective

participants. Companies who might be considering ameliorating internal controls already have higher potential to engage in collective action to fight corruption. I propose consideration of a mid-way agreement, where the firms commit to implement corporate governance standards and anti-corruption programmes by a fixed date, or demonstrate significant improvement of within-company standards otherwise. The incorporation of binding and an evaluation that carries financial penalties for non-compliance might be necessary in light of collective problems outlined in the previous section. Additionally, previous experience shows that corporate collective action is more successful in continuous cooperation projects than one-time events (WBI, slide 78). Therefore engaging the potential firms for long-term cooperation with a mid-way agreement is a step towards more effective collective action initiatives.

One of the greatest difficulties for tackling corruption within the private sector is a heavily-engrained corporate culture. According to Hess and Ford (forthcoming), if corrupt practices are engrained within corporation's daily activities, "simply adding more controls or increasing monitoring activity has only limited effectiveness because it does not address the root of the problem" and employees will continue subconsciously rationalizing corrupt behaviour. There is no fast, easy or sure-proof method to change the engrained corporate culture of bribery where it exists. A combination of corporate leadership regarding anti-corruption, media and global ethics pressure, and prominent examples of clean competitors are some of the factors that could induce such change. Internally, Hess and Ford (forthcoming) also recommend publicity of anti-corruption policy via bulletin's on corporate culture that include strong anti-bribery statements, with examples of misconduct and specific facts regarding punishment.

An underlying question to the dilemma above is whether fighting corruption is a substantial justification for businesses to change their way of operation. Considering the structure of industrial organization, businesses often operate in a dense network of co-operation and affiliation, linked together through cross-shareholding, sub-contracting, supply chains, and informal associations (Richardson 1972). An individual company has no incentive to re-organize in order to follow corporate governance codes if the company's network of operation and affiliation remains permeated with unethical practices.

There are tools to overcome this obstacle. It includes managing the supply chain and other organizations in the network, based on the example of Electricity utility United Energy Systems that is developing an open and transparent procurement management system in a supply chain (IBFL). Some lessons and mechanisms can apply to managing industrial linkages as well. These include: minimum ethical standards for business relationships; incorporation of fines and penalties in the contract terms for non-financial issues like bribery; declaration from partners that the requisite standards are already met; and a clear-cut and procedure for reporting and sharing deviations.

## **Implications of Transition**

The legacy of communism and a centrally-planned economy, followed by turbulent economic development and rapid changes, poses particular challenges for collective action among firms operating in transition countries. Key such challenges are a blurred line between government and business, weak administration, lack of political support, and a low level of public trust.

In a previous section, collective action initiated by business associations was declared a potentially effective solution to the problem of trust. Yet this solution is tricky in transition countries. If several business groups have 'captured' the state—a phenomenon illustrated by empirical and analytical research of Hellman, Jones, and Kaufmann (2000)—it is unlikely that collective action would be successful. Captor firms would, in fact, oppose any efforts

that undermine the individual benefits they receive from the state (Hellman and Kaufmann 2001). State capture presents a challenge in itself—business groups offer benefits to members because of private-public linkages with the state and resources. Because of the preferential relationship between captor firms and captured governments, collective initiatives on the national level without engagement of captor firms will not work.

Therefore, collective action would be most suited to local business associations, as it also involves key local issues that appeal to firms. Since the cost of bribery are seen in a low level of economic development, the involvement of local residents is crucial to their desire to engage in collective action. An unfortunate implication is that collective action will not have a large developmental effect in a captured economy because it cannot engage the biggest players. Surge in the activities of RRCR yet lack of real national measures to eliminate corruption in Russia is a perfect example of how local collective action would play out. Collective action on a local level does sidestep the problem of state capture and has impact on the local level. Therefore, it is better than none whatsoever.

Moreover, political will and cooperative administration are key issues in transition countries. Any truly multi-stakeholder effort at reducing corruption has to involve the state. Finding credible governmental organizations to participate as a stakeholder in collective action can be very difficult. A thorough discussion of political will vis-à-vis anti-corruption in transition economies is beyond the purposes of this essay. It is possibly the most contentious subject for collective action and in current discussion. It suffices to say, that political will differs from country to country, and no solution to the lack of political will is within the power of business alone.

Golovchinskiy et al. (2004) propose not to antagonize local administration when there is no support for anti-corruption. Instead, Golovchinskiy et al. (2004) envisage cooperative solutions where local firms pledge to fully comply with tax payments in exchange for termination of bribe-demands on part of the local government. The proposed solution then incorporates an independently-run ‘local fund’ where the firms deposit contributions to be spent on roads, schools, hospitals, and celebrations. The local government would then have to pledge not to extract additional payments from companies, typically under the ‘purpose’ for road rehabilitation, celebration of a local holiday, and so forth. The strategy to achieve such contract on an implementable level is two-fold: (1) abstractly discuss anti-corruption with local authorities and agree on announcing a nominal statement to fight corruption that is widely publicized; (2) when proposing specific solutions and initiatives shortly thereafter, ensure publicity in the media and pressure from local residents. (Golovchinskiy et al. 2004)

Even though the implementation of such local anti-corruption contract between business and government is controversial in practice, it is theoretically possible. The use of media, on the other hand, can be questionable. A typical assessment of a public anti-corruption campaign in Eastern Europe begs the question, “who paid for this and how much money was stolen”? Anti-corruption bill-boards in St. Petersburg, advertising the number for a corruption hotline, generated an overall negative reaction from the readers, who focused on the questions of how much money the marketing companies and organizers responsible for the initiative siphoned off (Medvedeva 2009). As such, media campaign suggested by Golovchinskiy et al. (2004) might be met with a similar distrust, undermining the public credibility of the firms instead of boosting their image.

Such public campaign might not be necessary in the first place (though beneficial), if the country in question already has a nominal political will to fight corruption. For instance, the widely-publicized anti-corruption drives of President Putin and President Medvedev could be used to induce local administration to cooperate in an anti-corruption programme. This is in line with TNK-BP’s publicity of the internal anti-corruption programme as “consistent with national anti-corruption agenda declared by President Putin” (Dudley 2006,

slide 4). Potentially, this could also be applied on a national scale. Specifics will depend on the national dynamics between businesses and the government and therefore a more narrow, thorough analysis like a business case for a specific country is a prerequisite to develop an effective associated solution.

## **Conclusions**

In our globalized world, the economy is interdependent with politics, business, and civil society both through horizontal linkages and vertical linkages. This is the case on the level of industrial business organization and administrative organization on the local, national, and regional level. Operating in a complex network of mutually-reinforcing and circular relationships, analysis of a phenomenon like multi-stakeholder collective action inherently must be multidisciplinary in order to be meaningful and far-reaching. This essay primarily provides an economic analysis with elements of business and political economics; other perspectives from business studies, legal studies, sociology, and psychology need also to be considered.

Despite the limited perspective on such a complex dilemma, this essay has novel elements that can be applied to private-sector led anti-corruption in practice. The international organizations and NGOs operating in transition economies should focus the efforts on promoting collective action among regional business associations. The experience of Russian regional business associations shows that it can be applied to other transition countries as well. Among the companies implementing transparency changes because of the financial crisis, the effort should focus on signing a mid-way collective action pledge, thus addressing the problem of trust, financing and long-term interests for business. As far as funding and costs are concerned, the solution is a private consulting service. A strategy should be devised to advertise and promote the need for regional independent experts, highlighting the profit potential of the job. The crisis-driven labour market will then provide experts or generate such experts by aligning together people with the necessary skills. All in all, while the challenges for collective action are great to begin with, even greater in the business setting, and may seem next to impossible in transition countries, anti-corruption efforts are hollow without the private sector. Nothing is impossible, and private-sector led anti-corruption success is not impossible either. In conclusion, a continuous effort to tackle corruption via governmental reform, strengthening of watchdog mechanisms, and engagement of the private sector simultaneously is an obligation.

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