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Political Risks and their Impacts on the Business Environment of Black Sea Region Countries. The Case of Ukraine. [2]

Abstract

Ukraine is currently experiencing a turbulent time, losing the country's territorial integrity and some of its population. One of the catalysts of Euromaidan, which is leading all the other movements, was the fight against corruption. Indeed, corruption is one of the main challenges to doing business in the country.

Based on the original data set of 625 firms, we investigated the casual effects of corruption among Ukrainian firms and assessed the firms' judgment of who engages in corrupt activities, who benefits from them and who is harmed by them: officials, executives, employees, shareholders, vendors, customers, competitors or society as a whole. By coding the negatively connoted word 'corruption' into the more neutral 'informal practices' – the practical norms that CEOs and managers often use to get things done – we were able to ask questions about corruption indirectly. This helped us to get information about some of the less reprehensible but more widespread forms of corruption, such as collusion, conflict of interest, cronyism and nepotism, fraud, gifts and hospitality, lobbying, abuse of power or office and influence peddling.

1. Introduction

The current state of research on business corruption shows that corruption can be defined, measured and translated into policy[3]. This is not an easy task to do, however, especially in endemically corrupt environments (cf. Ledeneva 2009, 2013b).

Corruption is usually defined as 'the abuse of public power for private gain' – the 'twisting' of something public into something private, but in many post-communist societies the public and the private still overlap. So, for example, the administration of the newly annexed Crimea, the eastern part of Ukraine and Kiev are currently reviewing the results of the privatization of some large businesses. Occasionally, de-privatization has even taken place with the changing of previous Ukraine presidents.[4]

Corruption is often used as an umbrella term for many activities including collusion, conflict of interest, cronyism, favoritism, nepotism, fraud, gifts and hospitality, lobbying, abuse of power or office and influence peddling – the less reprehensible but more widespread forms of corruption (Shekshnia, Ledeneva, Denisova-Schmidt, 2013, 2014a, 2014b). These forms of corruption in particular illustrate the very flexible boundaries between legal, socially accepted norms and illegal, corrupt behavior. For example, Ukrainian parents support their children more intensively and much longer than parents in Western Europe – a socially accepted norm in the country. If the parents have more opportunities, they are

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[2] This paper was written for the workshop on Political Risks and their Impacts on the Business Environment of BSR Countries, to be held on 28 August 2014. We are grateful to Thomas Aeschbacher for his excellent research assistance.

[3] This is one of the main ideas of ANTICORRP, the largest European Commission FP7 project re-examining current anti-corruption policies, www.anticorrp.eu.

[4] Krivorizhstal, one the largest steel companies, was privatized on preferential conditions in 2004 by Rinat Akhmetov and Viktor Pinchuk, the son-in-law of Leonid Kuchma (Ukrainian president 1994-2005) and reprivatized by the newly elected president Viktor Yuchenko (2005-2010) in 2005.

expected to do more for their children, as Viktor Yanukovich did for his sons; this might be called nepotism and favoritism by Transparency International, however.[5]

There are several tools for measuring business corruption, including, for example, BEEPS (Business Environment and Enterprise Performance Survey), a joint initiative of the European Bank for Reconstruction and Development (EBRD) and the World Bank focusing on firms in Eastern Europe and Central Asia, assessing business development. Their research has mainly focused on bribe-taking – the form of corruption that can be measured with some precision. The size of the bribes, the percentage of firms claiming to bribe frequently, usually or always, and the percentage of turnover paid by businesses to state officials has enabled cross-country comparisons, but it has also made it difficult to explain differences in business corruption between China, for example, and Ukraine or Turkey. Moreover, most of institutions measuring corruption work with the perception of corruption and not with the reality of corruption.

Most anti-corruption policies, such as by World Bank and International Monetary Fund, were established in the West. It is questionable whether these policies are applicable to a non-western context. Do they reflect all of the peculiarities of, for example, Black Sea Region, or do they miss something?

In order to address all of these challenges, we used the new instrument developed and tested in the Russian business environment by Shekshnia, Ledeneva and Denisova-Schmidt (2013, 2014a, 2014b), which allowed us to ask questions about corruption indirectly by coding the negatively connoted word 'corruption' into the more neutral 'informal practices' – 'the practical norms CEOs and managers often use to get things done' – while looking at different regions, firm sizes and industries.

2. Data

Our data set was collected between January and March of 2013. The sample includes 625 firms, which were then stratified by region and size. The majority of analysed companies were domestic (Figure 1). 20% of the sample firms were small businesses of 20 to 50 employees, 50% were mid-sized companies of 51 to 250 employees, and 30% were large enterprises with 251 to 1,000 employees. The data does not include very small companies with fewer than 20 employees, or very large companies with more than 1,000 employees (Figure 2).

[5] Many Ukrainian politicians have used their power and connections to support their relatives by promotions: Artom Pshonka, a member of the Ukrainian Parliament, is the son of General Prosecutor Viktor Pshonka (2010-2014), while Antonina Uliachina, another member of the Ukrainian Parliament, is the aunt of Yulia Timoshenko, the former Prime Minister (2007-2010). Andrei Yushenko, the son of President Viktor Yushenko (2005-2010), used to show off his expensive personal belongings often, including cars, mobile phones, and watches, which forced Viktor Yushenko to make public explanations. All of these belongings were explained as 'gifts made by successful friends'.

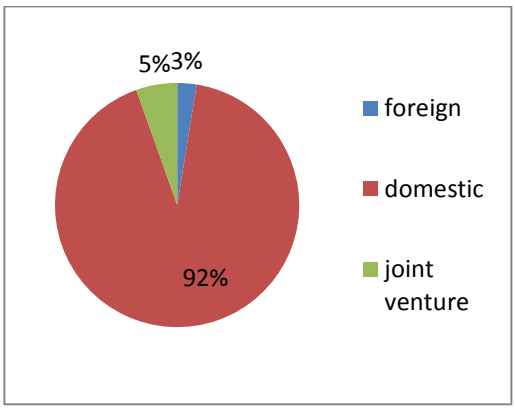


Figure 1: Companies by structure

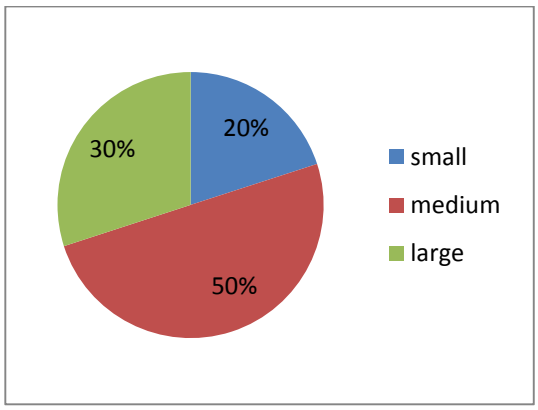


Figure 2: Companies by size

This survey contains rich information on a range of firm characteristics as of 2013, including, for example, legal form and ownership structure, firm size (number of employees), city size where the firm is located, industry and occupations (share of employees in production, sales, administration, and other areas), as well as financial indicators such as the annual sales and net benefits in 2011 and 2012, share of imports (in inputs) and exports (in sales), assets and liabilities, and the amount and source of newly invested capital in 2012. Several questions were devoted to characterizing the employee structure, such as the workforce composition in terms of gender and education, the share of blue/white collar workers and trainees, the employee growth over the last three years and the planned growth over the coming three years, and management's satisfaction with employee motivation and qualification. The survey also covers firm policies and procedures concerning health services, bonus payments and employee training, as well as organizational aspects like innovation in the development or acquisition of new patents or the introduction of new products and outsourcing. Finally, survey respondents (owners, CEO and CFO) were asked to judge the occurrence and severity of corruption and informal practices in various public institutions and the consequences for their firms' activities (Table 1).

Table 1: Informal Practices vs. Corruption

	INFORMAL PRACTICE AS KNOWN TO PRACTIONIERS	**FORMS OF CORRUPTION IN THE TI CLASSIFICATION**
Internal Informal Practices	Paying salaries and bonuses to staff in cash without paying taxes and social fees	=FRAUD
	Receiving commissions or other material benefits from job candidates	=GIFT =CONFLICT OF INTEREST
	Using company funds, facilities or staff for personal gain	=ABUSE OF POWER OR OFFICE
External Informal Practices	Receiving kickbacks or other informal rewards (for example, expensive gifts) from vendors, suppliers, buyers	=GIFT =CONFLICT OF INTEREST
	Selecting vendors/contractors/winners of open tenders on the basis of informal relationships and agreements	=CRONYISM =NEPOTISM =LOBBYING
	Using informal tools such as *kompromat, krugovaia poruka,* security department information against competitors	=INFLUENCE PEDDLING

3. Results

We apply the propensity score radius matching algorithm of Lechner, Miquel, and Wunsch (2011) in the analysis of our data to compare corruption outcomes across companies that differ in the following characteristics, but are otherwise similar in terms of any remaining observed firm variables (as work force composition, financial information…):

- size (small, medium or large firms);
- industry (manufacturing, agriculture and mining, transportation, information and wholesale);
- region (east, north, south, central and west)[6].

We believe that these characteristics might influence possible corrupt activities. Technically, propensity score matching obtains similarity in the remaining firm variables across size, industry, or region by matching firms that differ in these characteristics but are similar in terms of the propensity score, i.e., the conditional probability of having a particular characteristic given all remaining firm variables. We refer to Denisova-Schmidt and Huber (2014) for a more detailed discussion of the practical implementation of the estimator, as we use it in the same way here.

In one of our questions, we asked our respondents about their perception of corruption in dealing with some public institutions (Table 2a and Table 2b). The second column in each of these tables gives the respective mean responses for firms in the reference category (large firms in Table 2a and manufacturing firms in Table 2b), while the following columns show the mean (raw) differences between the reference group and the other categories, i.e., not adjusted for differences in observed firm variables. The remaining columns ("Diff. after matching") provide the differences in the corruption variables after adjusting for observed variables by matching firms in the reference category to comparable companies in the respective other categories. For all differences, p-values based on 999 bootstrap replications are provided in brackets. Furthermore, "on support" gives the number of observations in the reference group and the respective other category for which the common support restriction of Dehejia and Wahba (1999) is satisfied. The latter requires that only reference firms with propensity scores not larger than the largest value among firms in the respective other category are included for estimation, in order to avoid estimation based on incomparable matches in the propensity score. "Off support" indicates the number of reference firms with propensity scores too high to find suitable matches in the other category.

Question: Please indicate to which extent the following institutions engage in informal practices and corruption:

Table 2a: Corruption at public institutions (perception)

matched by firm branch

	Mean	Raw differences to Largefirm		Diff. after matching	
	Largefirm	Smallfirm	Midfirm	Smallfirm	Midfirm
tax inspection (564 obs.)	3.195804	.2304253	.1543763	-.19598	-.08289
(p-values)		(0.098)	(0.185)	(0.539)	(0.716)
On support (off support)				239(23)	410(10)
customs (523 obs.)	3.175182	-.0948253	-.147294	-.46912	-.17232

[6] Regional classifications and differences are discussed more extensively in Denisova-Schmidt and Huber (2014).

(p-values)		(0.586)	(0.280)	(0.233)	(0.510)
On support (off support)				195(42)	381(7)
courts(534 obs.)	3.100719	.054453	-.0503318	-.53159	-.25242
(p-values)		(0.755)	(0.719)	(0.307)	(0.276)
On support (off support)				227(25)	387(10)
police (548 obs.)	3.118881	.0996063	-.0203963	-.36501	-.19002
(p-values)		(0.559)	(0.883)	(0.442)	(0.335)
On support (off support)				239(20)	396(11)
fire inspection (562 obs.)	3.171233	-.0583297	-.0162513	-.08223	.00729
(p-values)		(0.701)	(0.897)	(0.839)	(0.973)
On support (off support)				246(20)	408(9)
Sanitary inspection (576 obs.)	3.080537	.0822538	.0561537	-.48655	-.20312
(p-values)		(0.568)	(0.634)	(0.233)	(0.255)
On support (off support)				248(26)	416(11)
municipal administration (554 obs.)	2.75	.1206897	.1319188	-.43037	-.26809
(p-values)		(0.446)	(0.286)	(0.418)	(0.148)
On support (off support)				234(22)	405(10)
regional administration (533 obs.)	2.695652	.0250685	.0476428	-.0961	-.32986
(p-values)		(0.883)	(0.721)	(0.849)	(0.238)
On support (off support)				231(14)	393(6)
national administration (496 obs.)	2.736	.0303551	-.0459174	-.59969	-.1289
(p-values)		(0.872)	(0.768)	(0.270)	(0.591)
On support (off support)				207(21)	361(6)

Note: p-values are provided in brackets and are based on 999 bootstrap draws. Outcomes range from 1 (never) to 5 (systematically).

Table 2b: Corruption at public institutions (perception)

matched by firm size

	Mean	Raw differences to Manu				Diff. after matching			
	Manu	Agri & Mining	Trans	Information	Wholesale	Agri & Mining	Trans	Information	Wholesale
tax inspection (564 obs.)	3.306122	.0306122	.0494331	-.1120926	.0909364	-.03846	.14102	.08255	-.15675
(p-values)		(0.823)	(0.773)	(0.394)	(0.548)	(0.873)	(0.719)	(0.807)	(0.499)
On support (off support)						255(39)	193(41)	293(37)	247(17)
customs (523 obs.)	3.203297	-.260768	-.1144078	-.3754279	-.0626717	.32688	.06764	.87829	-.07057
(p-values)		(0.140)	(0.607)	(0.023)	(0.742)	(0.448)	(0.873)	(0.038)	(0.735)
On support (off support)						229(40)	176(45)	268(36)	225(21)
courts (534 obs.)	3.115385	.0459057	-.1598291	-.0993846	-.2183258	.02205	.18104	.75023	.22303
(p-values)		(0.775)	(0.468)	(0.542)	(0.218)	(0.931)	(0.799)	(0.105)	(0.412)
On support (off support)						241(34)	182(38)	266(41)	222(28)
police (548 obs.)	3.146739	.0079	-.0380435	-.093304	-.2349744	-.00919	.20024	.5625	-.12522

(p-values)		(0.960)	(0.860)	(0.553)	(0.193)	(0.976)	(0.688)	(0.223)	(0.533)
On support (off support)						249(32)	190(33)	274(41)	231(21)
fire inspection (562 obs.)	3.104167	.0488946	-.2743794	.0462093	.2436594	-.09072	.59057	-.02192	-.56923
(p-values)		(0.733)	(0.199)	(0.738)	(0.149)	(0.721)	(0.188)	(0.930)	(0.006)
On support (off support)						251(39)	208(24)	297(28)	235(26)
Sanitary inspection (576 obs.)	3.145729	-.0672973	-.166562	-.0179091	.0092009	.09789	.29045	.13104	-.27753
(p-values)		(0.628)	(0.387)	(0.893)	(0.952)	(0.783)	(0.423)	(0.641)	(0.273)
On support (off support)						264(37)	203(37)	296(36)	251(19)
municipal administration (554 obs.)	2.863158	.045933	-.3423246	.020563	-.1318146	.04333	-.28182	-.10023	-.07417
(p-values)		(0.760)	(0.072)	(0.885)	(0.444)	(0.806)	(0.446)	(0.762)	(0.784)
On support (off support)						255(34)	200(31)	283(36)	242(15)
regional administration (533 obs.)	2.774725	-.0194061	-.4413919	.0057625	-.2054945	-.06882	.06355	.22569	-.05286
(p-values)		(0.904)	(0.025)	(0.971)	(0.267)	(0.804)	(0.860)	(0.444)	(0.829)
On support (off support)						240(36)	186(37)	273(32)	226(21)
National administration (496 obs.)	2.761628	.031055	-.4572801	-.0511016	-.171464	.3283	-.14831	.59142	.00367
(p-values)		(0.870)	(0.038)	(0.770)	(0.410)	(0.401)	(0.788)	(0.159)	(0.989)
On support (off support)						199(45)	167(44)	260(26)	207(26)

Note: p-values are provided in brackets and are based on 999 bootstrap draws. Outcomes range from 1 (never) to 5 (systematically).

The results show that firms in the north generally find corruption to be more problematic, especially with the courts and the police. Southern companies rate the levels of corruption to be lower compared to the east, particularly in tax inspections and customs, while western companies find the police to be less corrupt than eastern companies (Denisova-Schmidt and Huber 2014, Denisova-Schmidt 2014). Firms working in the information sector tended to experience corruption in dealing with customs, while for firms representing wholesale sector, it was in dealing with fire inspection. No significant differences were found when comparing firms in terms of their size.

Another question pertained to the respondents' real experience with corruption in dealing with specific public institutions (Table 3a and Table 3b).

Question: How often do companies comparable to yours have to engage in informal practices when dealing with the following institutions?

Table 3a: Corruption at public institutions (reality)

matched by firm branch

	Mean	Raw differences to Largefirm		Diff. after matching	
	Largefirm	Smallfirm	Midfirm	Smallfirm	Midfirm
tax inspection (552 obs.)	2.840278	-.127163	.0729298	-.06011	-.00867
(p-values)		(0.350)	(0.533)	(0.860)	(0.958)
On support (off support)				244(18)	394(15)
customs (508 obs.)	2.407692	-.3988428	-.294332	.60586	.31122
(p-values)		(0.015)	(0.029)	(0.158)	(0.197)
On support (off support)				210(29)	375(2)
courts (519 obs.)	2.351145	-.325935	-.2306631	.50573	.24189
(p-values)		(0.035)	(0.079)	(0.167)	(0.302)
On support (off support)				223(23)	374(6)
police (530 obs.)	2.321168	-.1310852	-.072156	-.15093	-.0243
(p-values)		(0.389)	(0.561)	(0.662)	(0.918)
On support (off support)				241(13)	383(7)
fire inspection (548 obs.)	2.62069	-.1124929	.0383142	-.42402	.04245
(p-values)		(0.460)	(0.752)	(0.190)	(0.814)
On support (off support)				245(18)	393(13)
Sanitary inspection (562 obs.)	2.70068	.0673197	.0911413	-.49095	-.1546
(p-values)		(0.648)	(0.444)	(0.182)	(0.461)
On support (off support)				247(21)	402(14)
municipal administration (546 obs.)	2.527778	-.3243879	-.1019223	-.07292	.01021
(p-values)		(0.033)	(0.396)	(0.910)	(0.961)
On support (off support)				229(29)	394(13)
regional administration (529 obs.)	2.355072	-.4671414	-.1739701	.06751	.25134
(p-values)		(0.002)	(0.146)	(0.929)	(0.447)
On support (off support)				226(24)	379(13)
National administration (502 obs.)	2.195313	-.5257473	-.3045562	.36536	.24195
(p-values)		(0.001)	(0.016)	(0.519)	(0.337)
On support (off support)				215(24)	357(9)

Note: p-values are provided in brackets and are based on 999 bootstrap draws. Outcomes range from 1 (never) to 5 (systematically).

Table 3b: Corruption at public institutions (reality)

matched by firm size

	Mean	Raw differences to Manu				Diff. after matching			
	Manu	Agri & Mining	Trans	Information	Wholesale	Agri & Mining	Trans	Information	Wholesale
tax inspection (552 obs.)	2.904762	.0005013	-.266464	-.1915836	-.0351967	.05076	.2135	.263	.09887
(p-values)		(0.997)	(0.118)	(0.143)	(0.829)	(0.797)	(0.476)	(0.438)	(0.668)
On support (off support)						245(39)	135(90)	254(64)	238(20)
customs (508 obs.)	2.418079	-.2975972	-.4403013	-.6264124	-.1393906	.09853	.14853	.32598	.2222
(p-values)		(0.069)	(0.030)	(0.000)	(0.471)	(0.750)	(0.708)	(0.466)	(0.370)
On support (off support)						212(48)	125(89)	224(73)	212(26)
courts (519 obs.)	2.2	.126087	-.2	-.1830508	-.2	-.0622	-.10932	-.19991	.09532
(p-values)		(0.391)	(0.263)	(0.201)	(0.216)	(0.773)	(0.794)	(0.716)	(0.622)
On support (off support)						224(43)	125(86)	225(68)	219(23)
police (530 obs.)	2.20339	.2808207	.2221421	-.0546295	-.2639959	-.38529	-.38244	-.52897	-.00858
(p-values)		(0.051)	(0.191)	(0.698)	(0.099)	(0.111)	(0.253)	(0.392)	(0.967)
On support (off support)						234(38)	130(84)	222(76)	205(38)
fire inspection (548 obs.)	2.700535	-.1047901	-.5090454	-.0803797	-.1035198	.0449	.44753	.00766	-.16038
(p-values)		(0.503)	(0.005)	(0.560)	(0.542)	(0.852)	(0.287)	(0.981)	(0.544)
On support (off support)						243(38)	138(85)	257(59)	223(31)
Sanitary inspection (562 obs.)	2.859375	-.104273	-.4010417	-.1723521	-.2216938	.34261	.18163	.09169	.08632
(p-values)		(0.490)	(0.021)	(0.208)	(0.150)	(0.257)	(0.571)	(0.835)	(0.743)
On support (off support)						250(40)	139(91)	262(61)	229(32)
municipal administration (546 obs.)	2.380435	.2090389	-.1463922	-.0496656	-.1565542	-.24949	-.12579	-.10427	.23132
(p-values)		(0.163)	(0.413)	(0.709)	(0.355)	(0.248)	(0.741)	(0.739)	(0.432)
On support (off support)						248(31)	132(93)	259(55)	219(32)
regional administration (529 obs.)	2.163842	.2340077	-.419161	-.0606672	-.1330726	-.52685	.2261	-.08743	.06942
(p-values)		(0.127)	(0.012)	(0.657)	(0.388)	(0.066)	(0.476)	(0.809)	(0.781)
On support (off support)						236(34)	132(87)	255(48)	214(28)
National administration (502 obs.)	1.909639	.1236948	-.148769	.0649377	-.2702943	-.11748	.00928	-.34394	.14825
(p-values)		(0.422)	(0.406)	(0.650)	(0.063)	(0.662)	(0.983)	(0.480)	(0.582)
On support (off support)						223(33)	134(73)	214(70)	182(45)

Note: p-values are provided in brackets and are based on 999 bootstrap draws. Outcomes range from 1 (never) to 5 (systematically).

The results once again indicate that southern and western companies seen to be least exposed to such practices (cf. Denisova-Schmidt and Huber 2014, Denisova-Schmidt 2014). No significant differences were found when comparing firms in terms of their size and industry.

In our questionnaires, we asked about the informal practices used within companies, such as whether comparable companies usually pay salaries to their staff in cash, or if managers receive any benefits from job candidates or use company funds or employees for their personal needs. We also asked about any informal practices in dealing with suppliers and buyers (cf. Table 1 and Table 4 and Table 4b).

Question: To what extent do firms comparable to yours encounter the following informal practices?

Table 4a: Corruption in companies

matched by firm size

	Mean	Raw differences to Largefirm		Diff. after matching	
	Largefirm	Smallfirm	Midfirm	Smallfirm	Midfirm
in public tenders (530 obs.)	2.376712	-.1144172	.0299267	.06403	-.02093
(p-values)		(0.452)	(0.813)	(0.866)	(0.930)
On support (off support)				243(21)	363(24)
by suppliers/buyers (525 obs.)	2.078014	-.2136074	-.0294312	.29008	.11674
(p-values)		(0.119)	(0.803)	(0.448)	(0.698)
On support (off support)				240(15)	379(9)
when remunerating employees (541 obs.)	2.201439	-.014447	.0139458	-.02218	.18329
(p-values)		(0.927)	(0.914)	(0.955)	(0.470)
On support (off support)				233(25)	394(5)
by job applicants (524 obs.)	1.764286	-.2642857	-.0691638	.484	.08084
(p-values)		(0.028)	(0.518)	(0.012)	(0.605)
On support (off support)				237(19)	378(8)
use of firm res. for private purposes (530 obs.)	1.814286	-.2523022	-.1114745	.54695	.10607
(p-values)		(0.047)	(0.315)	(0.027)	(0.542)
On support (off support)				244(13)	383(6)
in competition btw. firms (527 obs.)	1.838028	-.3380282	-.1619148	.53042	.04796
(p-values)		(0.007)	(0.146)	(0.045)	(0.793)
On support (off support)				233(23)	380(9)

Note: p-values are provided in brackets and are based on 999 bootstrap draws. Outcomes range from 1 (never) to 5 (systematically).

Table 4a: Corruption in companies

matched by firm brunch

	Mean	Raw differences to Manu				Diff. after matching			
	Manu	Agri & Mining	Trans	Information	Wholesale	Agri & Mining	Trans	Information	Wholesale
in public tenders (530 obs.)	2.456044	-.2802198	.1397007	-.206044	-.081044	.23934	-.22272	.32681	.23325
(p-values)		(0.082)	(0.505)	(0.151)	(0.646)	(0.197)	(0.512)	(0.542)	(0.391)
On support (off support)						238(35)	167(59)	271(35)	222(24)
by suppliers/buyers (525 obs.)	2.147727	-.362781	-.0286797	-.1554792	-.2747114	.16321	-.11821	.07293	.66116
(p-values)		(0.011)	(0.890)	(0.223)	(0.078)	(0.405)	(0.679)	(0.829)	(0.008)
On support (off support)						238(31)	170(45)	262(43)	217(22)
when remunerating employees (541 obs.)	2.248619	-.1057616	-.0529666	-.2486188	.1052274	.17956	.06953	-.04381	.32618
(p-values)		(0.507)	(0.791)	(0.083)	(0.586)	(0.628)	(0.817)	(0.887)	(0.213)
On support (off support)						242(30)	180(41)	263(47)	230(16)
by job applicants (524 obs.)	1.782353	-.1469363	-.0096257	-.3214154	-.0045752	.06176	-.27589	.31878	.13394
(p-values)		(0.279)	(0.957)	(0.003)	(0.977)	(0.757)	(0.549)	(0.246)	(0.689)
On support (off support)						236(30)	174(35)	264(34)	206(27)
use of firm res. for private purposes (530 obs.)	1.788571	-.1185714	-.0774603	-.1980202	-.1052381	.11901	-.31895	.16154	.25097
(p-values)		(0.376)	(0.671)	(0.087)	(0.485)	(0.505)	(0.256)	(0.522)	(0.345)
On support (off support)						257(18)	176(40)	254(48)	198(37)
in competition btw. firms (527 obs.)	1.804598	-.1275144	-.0139	-.2966612	-.1276746	-.05091	-.03486	.28755	-.02201
(p-values)		(0.349)	(0.940)	(0.009)	(0.378)	(0.853)	(0.911)	(0.096)	(0.952)
On support (off support)						242(28)	153(59)	251(49)	217(22)

Note: p-values are provided in brackets and are based on 999 bootstrap draws. Outcomes range from 1 (never) to 5 (systematically).

Concerning the regional differences, we find no significant differences between eastern and northern firms. Firms in the south report encountering significantly less informal practices in open tenders, in the remuneration of employees, in the use of firm resources for private gain, and in competition with other companies when compared to the east. Firms in the central region find informal practices in job applications to be more common than firms in the east, while all other differences are insignificant. Western firms state that the use of firm resources for private gains and informal practices against competitors is significantly less systematic (Denisova-Schmidt and Huber 2014, Denisova-Schmidt 2014).

The industry has less of an influence on those practices; it is only in wholesale that 'receiving kickbacks or other informal rewards from vendors, suppliers, buyers' is significant. The size of the company, however, has the opposite effect: managers receive 'kickbacks or other material benefits from job candidates', use 'company funds, facilities or staff for personal gain' and '*kompromat,* security department information against competitors' more frequently in small firms.

In our survey we asked our respondents about their anti-corruption strategies.

Question: To what extent do firms comparable to yours the following strategies to manage and counter informal practices?

Table 5a: Anticorruption strategies

matched by firm size

	Mean	Raw differences to large firm		Diff. after matching	
	Largefirm	Smallfirm	Midfirm	Smallfirm	Midfirm
The use of subcontractors, agents and third parties to work with regional authorities and regulatory agencies (623 obs.)	1.751553	-.1843886	-.0462548	.01304	.02182
(p-values)		(0.050)	(0.549)	(0.971)	(0.864)
On support (off support)				272(19)	451(12)
Annual budget for informal relationships with regional authorities and regulatory agencies (623 obs.)	1.63354	-.0738389	-.0540702	.02091	-.02308
(p-values)		(0.422)	(0.451)	(0.931)	(0.845)
On support (off support)				272(19)	451(12)
Proactive proposals to regional authorities and regulatory agencies on cooperation programs and methods (623 obs.)	1.670807	-.2678224	-.1476286	.14205	.04965
(p-values)		(0.002)	(0.045)	(0.629)	(0.700)
On support (off support)				272(19)	451(12)
Codes of Corporate Behaviour (623 obs.)	1.944099	-.3321591	-.1527087	.03736	.11224
(p-values)		(0.001)	(0.075)	(0.907)	(0.569)
On support (off support)				272(19)	451(12)
Briefing partners on company's rules/standards on working with government and regulatory agencies (623 obs.)	1.919255	-.3520905	-.1775328	.16645	.11952
(p-values)		(0.000)	(0.043)	(0.490)	(0.341)
On support (off support)				272(19)	451(12)
Training of managers and regional staff in the internal rules of interaction with counterparties (623 obs.)	2.068323	-.4265319	-.273621	.01353	.29113
(p-values)		(0.000)	(0.003)	(0.958)	(0.043)
On support (off support)				272(19)	451(12)
Alliances with other companies in the region to counter unscrupulous actions by authorities or regulatory agencies (623 obs.)	1.726708	-.4058126	-.1671054	.42724	.15973
(p-values)		(0.000)	(0.036)	(0.016)	(0.214)
On support (off support)				272(19)	451(12)
Use of the media to counter unscrupulous actions by	1.608696	-.3101882	-.0557155	.23305	-.03398

authorities or regulatory agencies (623 obs.)					
(p-values)		(0.000)	(0.457)	(0.169)	(0.814)
On support (off support)				272(19)	451(12)
Use of courts to counter unscrupulous actions by authorities or regulatory agencies (623 obs.)	1.689441	-.331232	-.1364609	.35681	-.05462
(p-values)		(0.000)	(0.081)	(0.050)	(0.782)
On support (off support)				272(19)	451(12)
Formal approaches to state officials to counter unscrupulous actions by regional authorities (623 obs.)	1.670807	-.4021507	-.1939863	.52748	.20029
(p-values)		(0.000)	(0.015)	(0.001)	(0.083)
On support (off support)				272(19)	451(12)

Note: p-values are provided in brackets and are based on 999 bootstrap draws. Outcomes range from **(never used) to 4 (widely used)**.

Table 5b: Anticorruption strategies

matched by firm branch

	Mean	Raw differences to Manu				Diff. after matching			
	Manu	Agri & Mining	Trans	Information	Wholesale	Agri & Mining	Trans	Information	Wholesale
The use of subcontractors, agents and third parties to work with regional authorities and regulatory agencies (623 obs.)	1.699074	-.0729058	-.0198288	.0181673	-.0543372	-.13028	-.06945	-.06322	.10537
(p-values)		(0.430)	(0.872)	(0.833)	(0.597)	(0.428)	(0.727)	(0.759)	(0.510)
On support (off support)						284(39)	201(61)	315(46)	278(14)
Annual budget for informal relationships with regional authorities and regulatory agencies (623 obs.)	1.615741	-.1671426	.0446366	-.0295338	.0158382	-.04428	-.11371	-.11539	.06592
(p-values)		(0.043)	(0.719)	(0.705)	(0.883)	(0.829)	(0.578)	(0.481)	(0.637)
On support (off support)						284(39)	201(61)	315(46)	278(14)
Proactive proposals to regional authorities and regulatory agencies on cooperation programs and methods (623 obs.)	1.537037	-.0230183	.0290007	.0215837	-.0501949	-.28793	-.097	.0034	.1764
(p-values)		(0.787)	(0.789)	(0.780)	(0.601)	(0.291)	(0.640)	(0.977)	(0.163)
On support (off support)						284(39)	201(61)	315(46)	278(14)
Codes of Corporate Behaviour (623 obs.)	1.824074	-.1324853	-.088225	.1000639	-.087232	-.12626	.13834	.06772	.27335
(p-values)		(0.172)	(0.481)	(0.320)	(0.491)	(0.562)	(0.561)	(0.727)	(0.093)
On support (off support)						284(39)	201(61)	315(46)	278(14)
Briefing partners on company's rules/standards on working with government and regulatory agencies (623 obs.)	1.833333	-.1978193	-.172956	-.0816092	-.1096491	.26744	.0389	.19547	.16255
(p-values)		(0.044)	(0.173)	(0.405)	(0.333)	(0.113)	(0.861)	(0.354)	(0.366)

On support (off support)						284(39)	201(61)	315(46)	278(14)
Training of managers and regional staff in the internal rules of interaction with counterparties (623 obs.)	1.87037	-.1974732	-.2288609	.0537676	.0638402	-.11689	.0971	.13842	-.00374
(p-values)		(0.059)	(0.074)	(0.594)	(0.625)	(0.736)	(0.728)	(0.454)	(0.988)
On support (off support)						284(39)	201(61)	315(46)	278(14)
Alliances with other companies in the region to counter unscrupulous actions by authorities or regulatory agencies (623 obs.)	1.606481	-.0644254	.035028	-.1099298	-.0933236	.01808	-.152	.156	.21755
(p-values)		(0.479)	(0.781)	(0.176)	(0.377)	(0.905)	(0.618)	(0.241)	(0.130)
On support (off support)						284(39)	201(61)	315(46)	278(14)
Use of the media to counter unscrupulous actions by authorities or regulatory agencies (623 obs.)	1.527778	.0049325	.019392	-.017433	-.0146199	-.01064	-.04601	.13179	.2529
(p-values)		(0.956)	(0.869)	(0.828)	(0.887)	(0.943)	(0.847)	(0.395)	(0.089)
On support (off support)						284(39)	201(61)	315(46)	278(14)
Use of courts to counter unscrupulous actions by authorities or regulatory agencies (623 obs.)	1.532407	-.0557719	.0524983	.060696	-.0192495	-.08255	.01841	-.01682	.01335
(p-values)		(0.468)	(0.655)	(0.478)	(0.854)	(0.709)	(0.925)	(0.937)	(0.947)
On support (off support)						284(39)	201(61)	315(46)	278(14)
Formal approaches to state officials to counter unscrupulous actions by regional authorities (623 obs.)	1.5	-.1074766	.009434	.0172414	-.0263158	.0914	-.07619	.14612	.10532
(p-values)		(0.154)	(0.940)	(0.840)	(0.795)	(0.652)	(0.759)	(0.242)	(0.424)
On support (off support)						284(39)	201(61)	315(46)	278(14)

Note: p-values are provided in brackets and are based on 999 bootstrap draws. Outcomes range from **1 (never used) to 4 (widely used)**.

Some slight regional differences in anti-corruption strategies can be found: the mobilization of the mass media and the courts against corruption as well as cooperation with the national authorities to fight local corruption are used more frequently by firms in the central region. Companies in the south show significantly less willingness to cooperate pro-actively with the local authorities. Finally, western firms state that they make more use of buffer strategies via third parties when dealing with local authorities (the 'outsourcing' of corruption) (Denisova-Schmidt and Huber 2014 and Denisova-Schmidt 2014). No significant differences were found when comparing by industries, while there were some significant differences based on firm size – 'Creation of alliances with other companies in the region to counter unscrupulous actions by representatives of the authorities or the regulatory agencies' and 'Formal approaches to state officials to counter unscrupulous actions by regional authorities' are frequently used by small businesses while medium-sized business tend to apply some more formal approaches in fighting corruption: 'Training of managers and regional staff in the internal rules of interaction with counterparties' and 'Formal approaches to state officials to counter unscrupulous actions by regional authorities'.

Finally, we asked our respondents if they consider corruption to be an obstacle to their business development and operations. No significant differences in terms of region, branch and firm size were found on this question. Corruption seems to be more of a norm than a deviation (cf. Svensson 2005; Ledeneva 2013a).

4. Conclusion

Our results show:

1. Ukrainian firms tend to assume that many authorities are corrupt.

2. While Ukrainian firms tend to blame officials for corrupt activities, they hide their own (internal) corruption.

3. Concerning corruption, there are more differences in terms of regions and less in terms of industries and firm sizes: Corruption is perceived to be less prevalent in the south and in the west compared to the east.

4. Corruption, however, is not a major issue for most companies in the country.

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