



Politics and Economy

Corruption in Ukraine: A Way to Get Things Done?

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Presented at the

12th Annual Danyliw Seminar

Chair of Ukrainian Studies, University of Ottawa
10-12 November 2016

Draft: Not To Be Cited Without Permission

This study was conducted with financial support provided by the Center for Governance and Culture in Europe at the University of St.Gallen (GCE-HSG), Switzerland. The sponsor influenced neither the research design nor the interpretation of the results.

1. INTRODUCTION

In its recent history, independent Ukraine has gone through two revolutions – the Orange Revolution in 2004 and the Revolution of Dignity in 2014 – and in both cases, one of the catalysts was the desire to battle corruption. But what about corruption at the firm level? Not the lack of transparency in the privatization of state enterprises (e.g. Hoff and Stiglitz, 2004), raiding (e.g. Rojansky, 2014) or the role of oligarchs (e.g. Åslund, 2014), but rather corruption, for example, in the purchasing department when choosing new suppliers, or in the human resources department when recruiting and promoting new staff, or in using company resources for private purposes among top managers? Is this also a challenge, or a common way to get things done, or even an effective tool to run a business? There are not so many studies on corruption at the firm level (not only in Ukraine, but even globally), much less on how to deal with it. This does not mean that the problem does not exist: just that it has remained under-researched for many reasons (see the recent discussions in de Jong and van Ees, 2014).

Since 2011, we have been working on corruption among Ukrainian enterprises (Denisova-Schmidt, 2014, Denisova-Schmidt and Huber, 2014, Denisova-Schmidt et al. 2015, 2017, Denisova-Schmidt and Prytula, 2015a, 2015b, 2016a, 2016b, 2016c).

Based on our first survey in 2013, which we were able to conduct among 625 firms in all 25 of Ukraine's administrative regions (24 oblasts and the Autonomous Republic of Crimea), we found no statistically significant differences in terms of the firms' industry or size or the respondents' experiences with the firm, gender or educational levels (Denisova-Schmidt et al. 2017). Statistically significant differences were found only in terms of ownership (with foreign companies being more resistant to corruption) (Denisova-Schmidt and Prytula, 2016c) and in terms of regions: Our results showed that corruption is perceived to be less prevalent in the South and in the West of Ukraine when compared to the East¹. One of the anti-corruption strategies frequently employed in the West, however, was the use of third parties to work with local partners on difficult issues. Is corruption in Western Ukraine indeed low, or is it just 'outsourced'? Hence in our second survey in 2015² we went to the West and, using one oblast' (Lviv) as an example, looked deeper into the region perceived to be less corrupt (Denisova-Schmidt and Huber, 2014, Foster, 2015; Denisova-Schmidt et al. 2015). There, we focused our questions more on the reasons why CEOs and general managers use various corrupt techniques and their justification. We conducted our survey among 120 businesses.

1 East (Donetsk, Luhansk, Kharkiv, Zaporizhzhia, and Dnipropetrovsk); North (Poltava, Kirovohrad, Cherkasy, Chernihiv, and Sumy); South (Kherson, Odesa, and Mikolaiv); Center (Zhytomyr, Vinnytsia, Khmelnytskyi, Rivne, and Volyn) and West (Chernivtsi, Zakarpattia, Lviv, Ternopil, and Ivano-Frankivsk). Regional classifications are explained in detail in Denisova-Schmidt and Huber (2014).

2 Appendix 1 gives an overview on our first and second data sets.

2. DATA

Our data set was collected between February and March 2015 by FAMA³ on behalf of a joint project of researchers at the Ukrainian Catholic University (Ukraine) and the University of St.Gallen (Switzerland). 120 respondents – owners, CEOs, and top managers of enterprises in the Lviv region – were selected following the quota of seven key economic sectors in Ukraine: agriculture, mining, construction, manufacturing, trade, transport and communications, along with other service industries⁴. Respondents were approached in two ways: by telephone calls based on enterprise databases and by searching in the ‘yellow pages’ combined with personal visits to offices. The first method was rather ineffective among small business, however. With such an approach, the chance of recruiting was about 1 in 100. The information on many companies turned out to be invalid; about 10% of cases were given contact details of companies that had ceased their activities. Some calls were unsuccessful because of ‘filters’ established by companies to screen calls from sales representatives (about 30%); and 20% of potential interview partners refused to participate in the survey due to the absence and/or excessive workload of executives. The effectiveness of individual visits to offices and regional subdivisions was significantly higher (1:5).

The questions that requested several firm characteristics such as the workforce composition in terms of number⁵, gender and education and the share of blue/white collar workers and trainees were placed at the beginning of the questionnaire, and did not contribute to the establishing of trust relationships. Thus, the respondents were rather alarmed, especially at the question about the number of employees (many people are employed informally). There were several cases of refusal to participate in the project, despite the previous agreement, over the provision such information. Nevertheless, the study took place.

When talking about corruption, our respondents could be divided into two groups depending on their control over the situation: those who consider corruption often as the only way to do business in the country and those who claim that they are ‘clean’ and never use any forms of corruption, especially monetary ones. To reform the behavior of the first group, the obvious way would be to change the mindset of those who both demand and supply corrupt practices; the second group sees a way forward in the ag-

3 We are grateful to Yulianna Batina for her excellent research assistance.

4 Derzcomstat (State Statistical Office) of Lviv region, <http://www.lv.ukrstat.gov.ua/index.php>

5 It should be noted that this was one of the greatest challenges we faced when designing our sample: often respondents admitted that they are indicating the number of formally employed workers in the questionnaire and strongly refused to fill in the real number. The justification for this behavior varied but had a common leitmotif: it was a precaution to avoid being fined. Many companies (especially small ones) face difficulties in specifying the exact amount of their workers in different units due to the practice of combining the responsibilities of various positions into one person (e.g. a manager and an ordinary worker). In such cases, the division is usually carried out at the highest level of duty sharing for a certain employee.

gressive and immediate purification of government structures by removing the corrupt officials, who they consider the ‘alpha and omega’ of the system. For the first group, corruption is a ‘brake’ for domestic business development, while for the second, it is an interstate enemy to which they are powerless.

In our survey, we recoded the negatively connoted word ‘corruption’ into the more neutral ‘informal practices’ to refer to the practical norms CEOs and managers often use to get things done (see the discussion on this approach in Shekshnia et al. 2017). In our questionnaires, we asked about the informal practices used within the company, such as whether companies tend to 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 that occur in their dealings with suppliers and buyers. We talked with companies about their interactions with local and state authorities, with different control agencies, and with tax inspection and the courts. All of these actions are informal practices on the part of the practitioners, but according to Transparency International, they are all forms of corruption – ‘the abuse of entrusted power for private gain’ (Table 1).

TABLE 1: INFORMAL PRACTICES VS. CORRUPTION

INFORMAL PRACTICE AS KNOWN TO PRACTITIONERS	FORMS OF CORRUPTION IN THE TI CLASSIFICATION
Selecting vendors/contractors/winners of open tenders on the basis of Informal relationships and agreements	=CRONYISM =NEPOTISM =LOBBYING
Receiving kickbacks or other informal rewards (i.e., expensive gifts) from vendors/suppliers/buyers	=GIFT =CONFLICT OF INTEREST
Paying salaries and bonuses to staff in cash without paying taxes or 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
Using kompromat, security department information against competitors	=INFLUENCE PEDDLING
Using company staff for personal service to managers (assistance to family members, construction and decoration of housing, organization of holidays and entertainment)	=ABUSE OF POWER OR OFFICE
Selecting vendors/contractors with whom regional managers have informal relationships or arrangements	CRONYISM AND NEPOTISM
Employing relatives and friends without appropriate knowledge and experience, without competition	CONFLICT OF INTEREST

Creating informal alliances with other companies in the region to exert influence on regional authorities	CRONYISM AND NEPOTISM
Using informal connections and networks to obtain state orders (state procurement) and loans from state banks	CONFLICT OF INTEREST
Use of company funds by heads of regional subdivisions to buy expensive cars, telephones, travel, etc.	=ABUSE OF POWER OR OFFICE

Sources: Denisova-Schmidt and Prytula (2015a, 2015b), Denisova-Schmidt et. al. (2017), Shekshnia et al. (2017).

We were not intending to find out which was the most or the least corrupt company (Table 1b), nor to blame any firms; rather, we were more interested to find out the reasons why CEOs and general managers use these practices and how they justify their actions. We were not able to receive detailed feedback on every practice from each of our respondents, but we still got some valuable insights, which we summarize below.

TABLE 1B: FREQUENCY OF USAGE OF INFORMAL PRACTICES

PRACTICES	NEVER	SELDOM	SOMETIMES	OFTEN	SYSTEMATICALLY	HARD TO SAY/ NO ANSWER
Selecting vendors/contractors/winners of open tenders on the basis of Informal relationships and agreements	5.8% n=7	10% n=12	30% n=36	20% n=24	11.7% n=14	22.5% n=27
Receiving kickbacks or other informal rewards (i.e., expensive gifts) from vendors/suppliers/buyers	20% n=24	25% n=30	24.2% n=29	10.8% n=13	5.0% n=6	15.0% n=18
Paying salaries and bonuses to staff in cash without paying taxes or social fees	12.5% n=15	13.3% n=16	20% n=24	17.5% n=21	25.8% n=31	10.8% n=13
Receiving commissions or other material benefits from job candidates	55.8% n=67	18.3% n=22	12.5% n=15	5.0% n=6	0	8.3% n=10
Using company funds, facilities or staff for personal gain	37.5% n=45	19.2% n=23	22.5% n=27	8.3% n=10	2.5% n=3	10.0% n=12
Using <i>kompromat</i> , security department information against competitors	54.2% n=65	19.2% n=23	10.8% n=13	2.5% n=3	1.7% n=2	11.7% n=14
Using company staff for personal service to managers (assistance to family members, construction and decoration of housing, organization of holidays and entertainment)	40.0% n=48	20.8% n=25	15.8% n=19	7.5% n=9	4.2% n=5	11.7% n=14

Selecting vendors/contractors with whom regional managers have informal relationships or arrangements	18.3% n=22	21.7% n=26	27.5% n=33	16.7% n=20	6.7% n=8	9.2% n=11
Employing relatives and friends without appropriate knowledge and experience, without competition	28.3% n=34	31.7% n=38	17.5% n=21	8.3% n=10	5.0% n=6	9.2% n=11
Creating informal alliances with other companies in the region to exert influence on regional authorities	25.0% n=30	19.2% n=23	25.0% n=30	10.0% n=12	9.2% n=11	11.7% n=14
Using informal connections and networks to obtain state orders (state procurement) and loans from state banks	26.7% n=32	15.8% n=19	22.5% n=27	10.0% n=12	9.2% n=11	15.8% n=19
Use of company funds by heads of regional subdivisions to buy expensive cars, telephones, travel, etc.	42.5% n=51	15.8% n=19	12.5% n=15	9.2% n=11	5.8% n=7	14.2% n=17

3. RESULTS

3.1 Internal Informal Practices

Selecting vendors/contractors/winners of open tenders on the basis of informal relationships and agreements

Respondents admitted to working under conditions in which the choice of open tender winners based on informal relations is normal, appealing to a system of government kickbacks established over the years: ‘This is a norm, especially in procurement’ according to one CEO. However, when it comes to choosing subcontractors with whom directors/top managers have informal (close, family) relationships or special arrangements, respondents tend to justify themselves by appealing to established trust relationships that exist in their inner circles. The justification of the use of kickback mechanisms (instead of an attack on the ‘rotten’ system) can also be found in discussions on the possibilities of hiring relatives and friends without proper knowledge and skills. In the latter case, respondents argue in their defense that an entrepreneur will never deliberately put his or her business in situation that threatens it with collapse.

Paying salaries and bonuses to staff in cash without paying taxes or social fees

Regarding the payment of salaries and bonuses to employees in cash without paying social taxes, this is the reality for 70% of the market, according to respondents. Some

survey participants survey laughed ironically when heard about this informal practice. One CEO managing a service company explained that ‘there are only a few companies offering a “white” salary in [his] sector – McDonald’s and Svit Kavy. The others keep the money within their enterprises’.

*Receiving kickbacks or other material benefits from job candidates;
Receiving kickbacks or other informal rewards (i.e., expensive gifts) from vendors/
suppliers/buyers*

Silent condemnation was the response given to the frequency of the informal practice of managers and staff members receiving gifts or other material benefits from job candidates or from suppliers or buyers. However, several respondents described inexpensive gifts such as alcoholic beverages and souvenirs that foreign partners in particular received from Ukrainian enterprises, as well as about providing a hospitality program for all business partners who come to visit Lviv.

Using company funds, facilities or staff for personal gain

Using company funds and/or production and office spaces for obtaining additional personal income by directors turned out to be commonplace, as was using company money for the purchase of expensive cars, cell phones, and personal travel on the part of directors and/or owners. The latter consider the aforementioned resources to be resources that are the property of a manager, director or owner, so they can be used however they see fit: ‘When it is needed – I use them. It is my money’ said one respondent. Representatives from medium and large businesses mentioned that similar practices are present in their firms but they are being actively combated by internal audits: ‘This is a permanent practice, including the purchase of apartments, for example. The owners, mostly they are also directors, perceive the money of the business as their own. That’s why we have a supervisory board’.

3.2. External Informal Practices

Bribery at public institutions

Corruption at public institutions in Ukraine is accepted peremptorily even by those respondents who refused to give an answer to certain questions from this block. Their reasons for refusing to answer included paranoia regarding the possibility that the answers to these institutions may be used against them later. Despite the high rate of involvement of the tax office in corruption, respondents are convinced that if you do everything according the law, then the need to pay bribes disappears: ‘With large businesses, tax service is ‘like silk’; small and medium businesses have frequent problems’

said one respondent. Considering that it is the tax office that entrepreneurs most frequently deal with (monthly for reporting, frequent checks, etc.), such a tendency inspires hope.

The customs office was recognized to be one of the most corrupt institutions in the country. However, according to the respondents, there have been noticeable improvements at the customs office now: those who do not want to pay bribes may do everything right without problems. 'It was once that we always gave bribes; now the customs office isn't given bribes'. But there is still a considerable number of businesspeople who use bribes to simplify or accelerate work with institution representatives and who act as initiators for the involvement of informal practices in cooperation processes. Very often companies use a broker to get things done. It should be noted that only those respondents whose companies deal with the export or import of goods and services are affected by this institution.

The involvement of the judicial system in corruption was gracefully omitted by the respondents, perhaps because some of them decided to appeal to court to solve the issue of bribes demanded by representatives of other government institutions (e.g., the tax office). Describing the sanitary-epidemiological office and fire inspection, respondents complained about a moratorium violation by the latter: 'They come regularly and each time is 50-100 UAH', said one respondent. The police are also frequent visitors and often arrange inspections without warning so businesspeople cannot avoid material costs.

When it came to the administrations of various levels and their involvement in corruption, the respondents noted the patterns of proportional growth of corruption and arrogance regarding officials at higher levels of centralization (city – region – state). Entrepreneurs noted the valuable support of the Lviv city council (*mis'ka administratciia*), however.

Amount of 'payments'

2/3 of respondents acknowledged the existence of bribery in public institutions. The size of the bribe ranges from 1% to 35%, depending on several factors:

- institution to which the payment goes;
- company size;
- company revenue/turnover;
- industry in which the company operates;
- other specific factors such as the total value of the goods (when talking about the customs office) or the penalty (when it comes to tax).

Respondents also indicated that state officials deal with various companies differently. It was recognized that pressure on small and medium-sized enterprises is much greater than on big ones, and that foreign companies rarely face various extortions in contrast to domestic ones: 'Without these payments it is practically impossible to do business'. Only a few respondents demonstrated a lack of experience and/or a recent abandoning of bribery to officials.

According to the respondents, at the customs office 2-3% of the total value of the imported goods are paid; 10% of the monthly turnover is a common bribe for the tax office; and the acceleration and simplification of obtaining a license costs between 100 and 200 USD.

When answering a similar question about bribery in state tenders, the share of respondents who hesitated with an answer and admitted their lack of experience rose significantly. However, the level of recognition of the presence of corruption in this area remains high, as do the payments (according to respondents, in the service sector, a bribe may reach 80% of the tender, while in insurance it can be up to 50%, and in construction – up to 10%). Besides the differentiation of a bribe's size in various sectors of the economy, there is a correlation between the value of a payment and a company's size. It should also be noted that there were some respondents who avoided tenders deliberately and justified such behavior by the lack of fair competition and the presence of bribery and nepotism. The questions did not elicit particularly stormy emotional reactions; the answers from the respondents were mostly calm and balanced, indirectly indicating that this is often the part of their business.

3.3. Mechanisms to prevent corruption

Among all the named strategies to fight corruption, the most frequently used are: Codes of corporate conduct, informing counterparties on the rules and standards in cooperation with contractors, government and regulatory institutions, and training managers and employees of regional departments on the internal rules for cooperation with counterparties. These strategies are considered to be ineffective according to the respondents, however.

Using contractors and subcontractors as a 'buffer' strategy is found to be widespread; appeals to the courts to counter the unscrupulous actions of the regional authorities and regulatory representatives seems to be the most productive recourse; while planning an annual budget for the development of informal relationships turned out to be ridiculous and unrealistic.

As for alliances with other companies in the region to counter the unscrupulous actions of officials, these are supposed to be the most promising strategy for entrepreneurs. The cases when such or similar alliances were created (formal or otherwise) were always recollected with positive connotations, however. Such alliances were characterized as spreading specific information on the main market players, contractors' recommendations, co-financing projects and so on among the participants in the informal group.

Official appeals to national representatives to the counter unscrupulous actions of officials was regarded as nonsense by the respondents. This position was argued against by noting that 'corruption's legs in our country are growing from the top' and 'the fish rots from the head', thus it makes no sense to promote such complaints and appeals up the bureaucratic vertical.

TABLE 2: ANTI-CORRUPTION STRATEGIES

STRATEGY	NEVER	SELDOM	SOME-TIMES	OFTEN	SYSTEMATICALLY	HARD TO SAY/ NO ANSWER
'Buffer' strategy – the use of subcontractors, agents and third parties to work with regional authorities and regulatory agencies	15% n=18	32.5% n=39	20.8% n=25	10.0% n=12	5.8% n=7	15.8% n=19
Allocation of annual budget for developing informal relationships with representatives of regional authorities and regulatory agencies	37.5% n=45	24.2% n=29	14.2% n=17	4.2% n=5	3.3% n=4	16.7% n=20
Proactive proposals to regional authorities and regulatory agencies on cooperation programs and methods	35% n=42	29.2% n=35	15% n=18	5.8% n=7	0.8% n=1	14.2% n=17
Creation and dissemination of Codes of Corporate Behavior	19.2% n=23	18.3% n=22	22.5% n=27	15.8% n=19	14.2% n=17	10% n=12
Active briefing of partners on the company's rules and standards for working with government and regulatory agencies	24.2% n=29	29.2% n=35	15% n=18	11.7% n=14	8.3% n=10	11.7% n=14
Training of managers and regional staff in the internal rules of interaction with counterparties	16.7% n=20	19.2% n=23	23.3% n=28	16.7% n=20	12.5% n=15	11.7% n=14
Creation of alliances with other companies in the region to counter unscrupulous actions by representatives of the authorities or the regulatory agencies	23.3% n=28	24.2% n=29	15.8% n=19	12.5% n=15	9.2% n=11	15% n=18
Use of the media to counter unscrupulous actions by authorities or regulatory agencies	25.8% n=31	33.3% n=40	11.7% n=14	10% n=12	5.0% n=6	14.2% n=17

Use of the courts to counter unscrupulous actions by authorities or regulatory agencies	29.2% n=35	30.0% n=36	10.8% n=13	5.8% n=7	10.0% n=12	14.2% n=17
Formal approaches to state officials to counter unscrupulous actions by regional and community authorities or regulatory agencies	29.2% n=35	32.5% n=39	15.0% n=18	3.3% n=4	5.0% n=6	15% n=18

3.4. Definition of corruption

We asked our respondents about their definition of ‘corruption’. This question turned out to be the most complicated from the position of choosing an alternative and giving an unambiguous answer. About 75% of the respondents complained about the difficulty of making a choice and spent much more time exploring the list of alternatives, even if their formulating was not complicated.

TABLE 3: DEFINITION OF THE TERM ‘CORRUPTION’

Question: ‘What does ‘corruption’ mean for you?’

DEFINITION	IN THE FIRST PLACE (CHOOSE ONE)	IN THE SECOND PLACE (CHOOSE ONE)
A necessity for business survival	5.8%	6.7%
A way of getting additional income	3.3%	5.8%
A crime	40%	12.5%
A part of doing business	8.3%	0.8%
A way of solving problems	7.5%	10.8%
Compensation for low income	0.8%	3.3%
A temporary situation	0.8%	7.5%
A tradition	3.3%	20.8%
A national peculiarity	4.2%	5.8%
Evil	10%	10.8%
State ‘business’	10.8%	11.7%
Politicians’ game	3.3%	3.3%

We observed a large number of respondents with ambivalent attitudes towards corruption. Corruption might be for them both a ‘crime’ and a ‘tradition’. The definition ‘politicians’ game’ evoked in different cases irony, laughter, and fatalism; ‘a way of solving problems’ was mentioned most often in negative connotations. ‘A necessity for business survival’ was accompanied by complaints about the difficulties of doing business on the

domestic market, while ‘a national feature’ was met with condescension; and there were also repeated hopes concerning the ‘temporality’ of this phenomenon.

In a population survey conducted in 2015 among 6000 respondents in Ukraine⁶, one of the questions asked about the views of the survey participants regarding some practices that are incompatible with the development of society (Denisova-Schmidt, 2014). The results show an ambivalent attitude towards some practices:

TABLE 4: PRACTICES INCOMPATIBLE WITH GOOD SOCIAL DEVELOPMENT

Question: ‘In general, which of the following practices, in your opinion, spoil the good development of a society?’

PRACTICES	YES
Buying votes during elections	61.2%
Giving jobs to friends or relatives instead of people who deserve them	52%
Bringing gifts to obtain access to health services	34.4%
Bringing gifts to be accepted at a good school	23%
Exchanging confidential information to get tenders and public construction bids	29.8%
Paying fees to have documents sorted out quickly	30.4%
Convincing journalists not to publish sensitive articles	19.5%
Using scandals to get rid of political opponents	18.8%
Using development funds for private purposes	67.4%

3.5 Cooperation with corrupt and hypocrites: cases

Corruption among Ukrainian firms seems to be acceptable if it helps to get things done and to survive; it is less acceptable if it leads to profit maximisation. In our survey, we asked the CEOs and general managers the following question: ‘Would you break relations with a company that pollutes the environment through corrupt practices in doing business?’ and offered three possible answers:

1. if this is a question of this company’s survival;
2. if this company maximises its profits by doing this.
3. if this company publicly announces that its business is corruption free.

⁶ The survey was conducted within the project ‘Regionalism in Ukraine’ sponsored by the by the Center for Governance and Culture in Europe at the University of St.Gallen (GCE-HSG), Switzerland. <http://www.gce.unisg.ch/de/ukraine>

The scale ranged from 1 ('will never break relations') to 5 ('surely will break relations'). Respondents showed statistically significant differences when answering these questions, indicating a higher level of support for companies that resort to such practices in order to survive (Denisova-Schmidt and Prytula, 2016a). The answers differ significantly between case 2 (mean value = 3.66) and case 1 (mean value = 3.16), with mean difference equal to 0.517 (t-test p-value=0.000).

Companies that use corrupt practices actively for their survival are not such an unusual phenomenon on the Lviv market according to the respondents. Cooperation with these companies is inevitable, and for some entrepreneurs to refuse cooperation because of someone being corrupt is considered a rather lame excuse, because the force of the arguments is leveled by the instinct of self-preservation (the element of environmental pollution was not generally seen as a case or a key purpose). Cooperation with such companies, by contrast, is seen as helping them to survive.

When talking about companies that pollute the environment and use corrupt practices actively to maximize their profit, the number of hypothetical refusals to cooperate rises significantly, just as with companies that behave similarly by publicly announcing themselves to be uncorrupt participants in the business environment. We suspect, however, that the real behavior of the respondents would not match up with their hypothetical behavior because none of them considered environment pollution or corruption to be the factors that can change their relationships fundamentally (e.g. poor work performance, unfair competition).

To further explore the ambivalence towards corruption, we randomly asked our respondents to imagine the following hypothetical scenarios:

1. *An entrepreneur carries out his construction business in a mid-size city in Ukraine. Last year, the entrepreneur gave 20% of the contract's total to receive a profitable government agreement for the construction of public housing in the city. There were rumours in town about it, but there was no evidence. As a result, quality public housing was built. Currently this entrepreneur is running for city mayor. In your opinion, what are the chances that your friends that live in the city would vote for this candidate?*
2. *An entrepreneur carries out his construction business in a mid-size city in Ukraine. Last year, the entrepreneur gave 20% of the contract's total to receive a profitable government agreement for the construction of public housing in the city. There were rumours in town about it, but there was no evidence. As a result, public housing of very poor quality was built. Currently this entrepreneur is running for city mayor. In your opinion, what are chances that your friends that live in the city would vote for this candidate?*

3. *An entrepreneur carries out his construction business in a mid-size city in Ukraine. Last year, the entrepreneur fairly won a tender for a profitable government contract to construct public housing in the city. There were rumours in the air about it, but there was no evidence. As a result, quality public housing was built. Currently this entrepreneur is running for city mayor. In your opinion, what are the chances that your friends that live in the city would vote for this candidate?*

4. *An entrepreneur carries out his construction business in a mid-size city in Ukraine. Last year, the entrepreneur fairly won a tender for a profitable government contract to construct public housing in the city. There were rumours in the air about it, but there was no evidence. As a result, public housing of very poor quality was built. Currently this entrepreneur is running for city mayor. In your opinion, what are the chances that your friends that live in the city would vote for this candidate?*

The responses ranged from 1) definitely NO chance, 2) rather NO than YES, 3) 50/50 chance, 4) rather YES than NO, 5) definitely YES.

TABLE 5: PREVIOUS BUSINESS EXPERIENCE AND LOCAL GOVERNMENT

	CONDITION 1 Quality public housing was built	CONDITION 2 Public housing of very poor quality was built	Average
ENTERPENEUR STATUS 1: gave 20% of the contract's total to receive a profitable government agreement for the construction of public housing in the city. There were rumours in the air about it, but there was no evidence.	2.77	2.20	2.485
ENTERPENEUR STATUS 2: Won a tender fairly for a profitable government contract to construct public housing in the city. There were rumours in the air about it, but there was no evidence.	3.31	2.50	2.905
Average	3.04	2.35	

The difference with respect to corruption ($2.905 - 2.485 = 0.42$) is less than the difference with respect to the results of work ($3.04 - 2.35 = 0.69$). Yet this difference is not statistically significant. In addition, it is interesting to note that the corrupt candidate who has

built the quality housing has more chances to win than the honest candidate who cannot build quality housing (2.77 vs. 2.5, which is not a statistically significant difference).

We received additional arguments in favor of the popularity of kickbacks when choosing the winner of open tenders. It should be mentioned that formulating the question with the case of ‘fair play’ (scenario 3 and scenario 4) raised eyebrows regarding the probability of such situation in Ukraine. As was the case of companies polluting the environment, the quality of the building constructed as a result of the project implementation and the bribery factor are leveled on the political background. Frequently, respondents remarked that such experience (‘fair play’ or not, quality building or not) does not really matter when it comes to their choice of candidate for mayor. According to the entrepreneurs, action plan, political affiliation, candidate personality – these are the things that are important.

4. CONCLUSION AND OUTLOOK

One of the results yielded by our studies is the fact that corruption is not always considered to be an obstacle, at least the firm level: ‘only 7% of the respondents saw corruption as a systematical obstacle for their business in 2013; others replied often (18%), sometimes (35%), seldom (23%) and never (17%) to the question ‘How often does corruption hinder the development of your business?’ (Denisova-Schmidt and Prytula, 2016b, p. 157-160). In our 2015 survey the number of CEO and managers that consider corruption as an obstacle to their development has almost doubled, reaching 43%. 57% of respondents did not consider it to be a problem, however. It seems that, for many practitioners, corruption can be a helpful tool to optimize their own business activities. This creates an ambivalent attitude toward corruption – i.e., it can be both good and bad at the same time. As long as such ambivalence exists, fighting corruption will be problematic, especially in the endemically corrupt environment and the economic downturn that Ukraine is currently experiencing (Denisova-Schmidt and Prytula, 2016a).

Can anything be done about corruption at the firm level in Ukrainian enterprises? Yes, if anti-corruption measures would consider the functions that corruption serves and develop alternative solutions based on this understanding (Marquette and Pfeiffer, 2015). Business-friendly laws that simplify bureaucracy, as along with international exposure, might be additional instruments to mitigate corruption (Denisova-Schmidt and Prytula, 2016c). Traditional approaches to fighting corruption in the country might have the opposite effect, however, and could even ‘promote’ it (Denisova-Schmidt et. al. 2015). In our recent experiment on the effects of anti-corruption initiatives among Ukrainian students (n=600), we found that those campaigns can even promote corruption and ac-

ademic dishonesty by convincing young people that cheating is widespread and/or by introducing them to new cheating techniques (Denisova-Schmidt et. al. 2015).

APPENDIX 1: FIRM CHARACTERISTICS

	2013 SURVEY (ALL UKRAINE)			2015 SURVEY (WESTERN UKRAINE)		
	Small	Medium	Large	Small	Medium	Large
Firm size						
Number of employees	29.14	97.20	655.08	13.72	108.41	545.60
Number of female employees	11.33	40.89	294.87	5.43	25.82	296.80
Change in the number of employees over the last 3 years (1: reduced by more than 20%, 2: reduced by 5-20%, 3: did not change, 4: increased by 5-20%, 5: increased by more than 20%)	2.75	2.88	2.88	3.08	3.05	4.00
Year of firm establishment	1999.62	1995.12	1991.31	2005	2000.3	1997.78
Foreign ownership (binary)	0.02	0.08	0.12	0.06	0.14	0.40
Business-to-Customer business model (binary)	0.76	0.73	0.69	0.89	0.82	0.60
% products/services sold domestically	97.13	91.06	87.13	90.81	84.50	74.60
% products/services bought domestically	95.26	88.40	83.08	67.10	42.52	39.67
Business development in last 3 years (1: very bad ... 5: very good)	3.27	3.52	3.63	3.55	3.23	3.60
Business development expectations in next 3 years (1: very bad... 5: very good)	3.68	3.80	3.88	3.99	3.50	4.20
Corruption is a problem for development (1: never ... 5: systematically)	2.79	2.80	2.69	3.14	3.40	2.90
Number of observations	126	311	188	88	22	10

Source: Denisova-Schmidt and Prytula, 2016b, p. 152

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