

The Spread of Violence in Russian Business in the Late 1990s

Vadim Radaev

August 1999

PONARS Policy Memo 66

State University, Higher School of Economics

There is much speculation that Russian business is coming through an age of "wild market" with no well-established rules and conventions shared by entrepreneurs today. In this memo I consider the spread of violence in Russian business and specific relationships of business protection from an empirical viewpoint. I use data collected for two main 1997-1998 surveys: a standardized survey of 227 entrepreneurs and managers from 21 regions of Russia; and semi-standardized interviews with 96 entrepreneurs and managers.

I conducted the surveys with a research team from the Center for Political Technologies in Moscow, which is headed by I. Bunin. The US Center for International Private Enterprise (CIPE) funded the research.

The Spread of Threats and Violence

According to mass media reports, persuading business partners by means of threats and demonstration of force plays a crucial part in Russian entrepreneurship at present. 79% of entrepreneurs in our sample agree that the use of threats and force does happen in Russian business today. A relatively modest share (17%) of entrepreneurs thinks it is a frequent phenomenon, while 62% assessed its frequency as "from time to time." Personal experience of this phenomenon is relatively modest: less than half of respondents (42%) are used to confronting this sort of pressure and only 3% experience it often (39% experience it from time to time). We conclude that while the threat and use of force in Russian business is important, media statements regarding the "total criminalization" of Russian business are obviously exaggerated.

Detailed analysis of the survey data leads to the following conclusions:

- Violence is concentrated in the areas of business with fast capital turnover, use of cash in transactions, and relatively simple managerial technologies. Sophisticated business requiring high professional skills presents a barrier for coercive measures, which are instead based on "simple" decisions.
- Violence is attracted to the sectors that are advertised and, therefore, open to the public. Our data proves the link between expenditures on advertising and the personal experience of facing threats and violence.

- There is a certain path dependency in the case under consideration: after getting involved in market segments that are more or less criminalized, the firm tends to be attached to this niche.

Transaction Costs and Protection Services

When entrepreneurs are subjected to threats, the normal ways of coping with the situation are:

- solve the problems themselves 34%
- apply for support of the police 13%
- contact a professional security agency 8%
- contact a criminal grouping ("bratva") 15%
- difficult to say 30%

Confronting violence leads to additional transaction costs for all parties involved, including payments to the security agencies for the regular job of business and personal protection plus payments for the additional services associated with the use of violence.

About 11,000 security agencies were registered in Russia by the beginning of 1999, employing nearly 160,000 licensed workers, who possessed 71,000 registered guns. Not all these agencies are active, especially after the crisis of August 1998. However, a progressive expansion of the security business has been evident since the early 1990s.

The transaction costs of business protection can constitute 10-15% of revenues, and much more--especially when the security agencies invest their capital into business apart from regular protection services.

Security groups (both legal and criminal) are widely hired to deal with unreliable and dishonest partners, especially for recovering debts. Prices for these "services" are high: securing of criminal groupings (bratva) will cost half the entire debt.

Recent trends and the Routinization of Violence

Interview data suggests that violence in Russian business is decreasing in comparison with the beginning of the 1990s. There are several arguments supporting this view. First, organized crime is attracted to the market segments with "fast" and "easy" profit. Many of these segments have been reduced by now, and criminal groupings are located more in the field of "black" market transactions.

Second, an initial division of zones of influence has been completed between legal and non-legal protection agencies as well as between criminal groupings. Clashes used to occur in attempts to reconsider the borders. Sanctions against transgressors can be very tough, but this is not a concern for the major part of entrepreneurs.

Third, criminal groupings have undergone significant changes. They have become more professional and started to root themselves into "white" and "gray" market segments. They are motivated by the incentives of money laundering and also fostering a new "honest businessman" image. Thus, they have to adopt at least some of the rules established in business beyond their criminal codes. Thus, the opposition of business and criminality is shifting toward integration.

A decrease in open violence does not necessarily mean that the criminalization of business is vanishing. Rather, it is changing. There is a routinization of violence, which is transformed into a "normal" element of economic relations. Much of spontaneous racketeering has been replaced by more sustainable and more "civilized" forms of control over enterprises on the side of organized crime.

What are the pillars of order and concepts of control established in this situation? The order that has been established is implemented by means of specification and identification of agencies that have a legitimate right to carry out violence in certain market segments and to exclude all other "intruders." Relationships between entrepreneurs and protection groups are built upon a specific ethic based on respect for force. It is a sort of customary law backed by means of violence. The legitimate right mentioned above is enforced not by strict moral business codes (which are not inherently characteristic of criminal groupings) but by the sustainability of their positions. The ability to control an area of influence in the long run is becoming the basis for the exclusive right to sell protection services.

Evolution of State Protection Agencies

The state protection agencies have undergone a remarkable evolution during the 1990s in Russia. First, they have developed in quantitative terms. For example, the number of Russian policemen (militiamen) increased from 463,600 to 601,100 from 1992 to 1998 (from 40.4 to 63.8 policemen per 10,000 citizens). This number includes only the general police service and does not count specific military troops subordinated to the police. Second, state agencies have been strengthened from the cadre, material and organizational viewpoints. Third, they are gradually commercializing the office by selling their protection services in both the formal and shadow economy. Fourth, state protection agencies are coming to intervene with criminal groupings. In their interviews, entrepreneurs mention that both tend to act in very similar ways. The latter does not mean that "mafia is running the state." It means that a flexible system of informal links among state-run, semi-state and criminal agencies is being formed, a system that fulfils the following functions:

- Dividing areas of influence and solvent clients;

- Providing additional revenues for state protection employees; and
- Establishing control over criminal areas.

State protection agencies are known for providing more safety, their services are normally cheaper, and they have more legal opportunities and run lower risks than their criminal counterparts. Many entrepreneurs no doubt would be happy to get protection ("krysha") from the police or, even better, from the Federal Security Service. Still their freedom to choose protection institutions is structurally limited. To get these services one has to establish personal links in the protection agencies. Maintenance of these links is an important element of business strategy, and it is certainly easier for the state-run and large business to solve these issues. Thus, there is a segmentation of markets in terms of protection methods, which are segmented according to enterprise status, in turn enforcing market segmentation.

Conclusions

The following points can be made about the use of threats and violence in Russian business in the late 1990s:

1. The lack of security in business relationships is evident in post-communist Russia. Many entrepreneurs are subjected to threats and the use of force. They also have to pay legal and/or criminal agencies for their protection services. As a result, specific behavioral codes are established in Russian business.
2. Frequent infringement of business contracts forces entrepreneurs to protect their property and income by means of violence. Use of force has been integrated as a "normal" element of economic relations. (Though the degree of violence and criminal protection services in Russian business seems to be exaggerated by the mass media.)
3. The intensity of violence in horizontal business relations is decreasing gradually. This does not, however, mean the elimination of criminality in Russian business. There is more likely a routinization of violence and development of a new ethic built upon capacity to use force.
4. State security agencies have undergone significant changes over the last five years. All in all, their positions are strengthened. But this process is accompanied by commercialization of state offices and continuous interaction with semi-legal and criminal agencies.
5. We can estimate the group of registered enterprises that have a propensity toward criminal actions of any sort as approaching 15%. At the same time, many more entrepreneurs are involved in "gray" segments of the informal economy and are accustomed to breaking legal constraints from time to time.

© PONARS 1999

