Reflective Leadership to Counter Corruption in Emerging Markets

Key Concept
Corruption remains a major obstacle to doing business in rapidly developing countries such as China, India, Brazil, Indonesia and Russia. It destroys value, distorts markets and encourages executives to work in their own rather than shareholders’ and stakeholders’ interests. Solving the problem depends on a new approach from companies: ‘reflective leadership’.

Idea Summary
Despite decades-long efforts to eradicate it, corruption continues to be a serious business risk in emerging markets. Policies by national and international governments have had only limited success; so, too, have strategies by companies.

The difficulties are often said to be particularly great in Russia, where the rule of law has been diverted by a set of “informal practices” and where strategies that “get things done” — but don’t necessarily observe written rules — have become a way of life. In terms of business corruption, Russia is, to quote IKEA founder Ingvar Kamprad, “in a class of its own”.

This suggests that if you can tackle corruption in Russia, you can tackle it anywhere. What can leaders learn from others with experience in the country?

A recent study by INSEAD, University College London and the University of St. Gallen helps answer that question. Based on a sample of 111 CEOs and owners of companies, and combining data from an anonymous survey with insights from in-depth interviews and executive workshops, it makes clear the scale and the nature of the problem in Russia — and points to effective risk-management strategies.

The researchers broke corruption down into constituent “informal practices” — ranging from tax evasion and offering bribes to officials to cronyism and receiving “kickbacks” from vendors, suppliers and buyers — and found it to be a “serious drain on businesses operating in Russia, regardless of their size, age or ownership structure”.

Importantly, the biggest problems could be described as “internal”. Although five of the “top ten” (most common) informal practices were government-related, the results of the survey challenge the idea that the “corrupt government official” is at the centre of the Russian “story”. Corporate executives were found to be the initiators of 76 per cent of reported practices and the beneficiaries of almost 38 per cent. What’s more, they did not bear the cost of a single practice — the victims, instead, were their shareholders.
Data from the post-survey interviews suggests that most executives in Russia tolerate corruption and fail to see that they have a role to play in its prevention — or that they are partly responsible for its continuing existence. Effectively, they blame the “authorities” — and thereby absolve themselves.

Despite these findings, the study is not unremittingly gloomy. While combatting corruption appears an uphill struggle, there are clear signs that progress is possible. A select few of the CEOs in the sample take a different approach. Recognising that corruption is a major risk, they develop specific strategies and mechanisms to mitigate it. The researchers describe them as “reflective leaders”, CEOs who “see corporate responsibility as inclusive of the courage to confront external corruption proactively and of the will to enforce anti-corruption instruments to deal with the firm’s internal corruption”.

Reflective leadership combines both top-down and bottom-up approaches — and, crucially, involves much more than the passive application of codes of practices recommended by governments and external organizations. A reflective leader will not only make “ethical declarations” but also introduce incentives for whistleblowing. He or she will make use of both formal and informal mechanisms to control and prevent corruption.

Effective strategies are, the research makes clear, implemented through both the organizational hierarchy and chain of command and the CEO’s personal network. The researchers cite the following case: “One CEO … set an example for his regional directors and declared a personal commitment to fight conflict of interest among managers working with informally affiliated vendors and suppliers. Through his informal channels and networks, he sent a strong signal that he would not tolerate any divergence from the ‘new party line’, no matter how close his relationship with a particular manager had been in the past.”

The best anti-corruption strategy will, of course, be dictated partly by the nature of the threat faced. On the evidence of this research, however, it will almost certainly combine informal and formal and reactive and proactive approaches.

**Business Application**
The study highlights several action points for business leaders operating in endemically corrupt environments. These can be summarised as:

- **Making** corruption management a top priority and carrying out an ‘audit’ to identify informal practices affecting the organization.
- **Concentrating** efforts on those practices that inflict most damage — in other words, taking a specific rather than a general approach.
- **Combining** formal tools such as hotlines, codes of conduct, open tender competition and standard policies and procedures with informal tools such as role modelling and peer pressure; using personal networks to ram the message home and to effect lasting change.
- **Providing** training to give people the skills to identify articulate, measure and manage (IAMM) corrupt practices. Most CEOs mitigating the risks of business corruption in Russian companies agree that making key employees at every level of the organization active participants in the anti-corruption strategy is critically important.

**Further Reading**
*Reflective Leadership vs. Endemic Corruption in Emerging Markets.*
Stanislav Shekshnia, Alena Ledeneva & Elena Denisova-Schmidt.

**Further Relevant Resources**
Stanislav Shekshnia’s profile at INSEAD