

# VIOLENT CORPORATE RAIDING IN RUSSIA: PRECONDITIONS AND PROTECTIVE FACTORS

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**Abstract:** By using a database of 543 cases of violent corporate raiding in Russia from 2011-2013 assembled by the Center of Public Procedures “Business against Corruption,” we tested several hypotheses: Violent corporate raiding is widespread in regions 1) with well-developed industrial, construction and trade sectors 2) rent-oriented law enforcement agencies cooperating with raiders and 3) low numbers of NGOs. The level of violent corporate raiding is connected to the economic appeal of the region and its capacity to implement raiding due to the rent-orientation of regional law enforcement. Because raiders can be considered rational economic actors who try to maximize their benefit, the best way to improve the situation is to increase the risks for raiders by developing civil mechanisms for the protection of entrepreneurs, for example, business associations and other NGOs.

In the World Bank’s ranking examining the ease of “Doing Business” across countries, Russia ranked 62<sup>nd</sup> out of 189 in 2014.<sup>1</sup> This negative result (in comparison with European countries) is a consequence of several factors including corruption and a high level of uncertainty for businesses. A key issue related to the interaction of business and government is the problem of violence and the rent-seeking behavior of different

<sup>1</sup> According to the official site of the Doing Business project: [<http://www.doingbusiness.org/rankings>].

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state agencies. The most important component of the market economy – property rights – cannot exist without developed mechanisms for their protection from both criminals and the predatory state. There are a variety of consequences for the absence of property rights protection, including corruption, contract killings, extortion and violent corporate raiding. We will focus on violent corporate raiding.

Violent corporate raiding is a phenomenon distinct from hostile takeovers typically found in capitalist economies in two main respects: the active participation of state agencies in the process and the use of physical or administrative power. The typical result of violent corporate raiding is the imprisonment of the entrepreneur and the destruction of his business. Therefore, violent raiding is clearly an example of “destructive entrepreneurship” as defined by Baumol.<sup>2</sup>

A good example of a violent raiding attack is the case of the energy company *Volgaelektrosbyt*<sup>3</sup> that occurred in 2011. This company supplies electricity to the entire Samara region (with approximately 1.1 million citizens), but the significance of the enterprise for the city and the region has not deterred raiders. In several incidents, the company was stormed by private guards, official regulators came to perform inspections, and the employees received threatening phone calls. One member of the board of directors was kidnapped. Finally, strangers threw Molotov cocktails into a company building, starting a fire. This situation resembled similar events in the 1990s, but they took place in contemporary Russia.

“Violent corporate raiding” has been generally discussed, but most analyses of corporate raiding in Russia are of a descriptive character, mainly because of the lack of official statistics. Using a database containing the 543 applications of Russian entrepreneurs to the Center of Public Procedures “Business against Corruption” that were received from 2011-2013, we undertook a thorough empirical analysis. Our main task was to identify the “preconditions” for violent raider attacks in Russia and to locate the factors that can reduce the probability of these tragic events.

Certain questions concerning this problem should be clarified. Who are the typical victims of raiding attacks (in terms of size, specialization, and geography)? Are the economic conditions in the region connected with corporate raiding? What are the factors that can reduce or increase the probability of raiding in the region (or the entire country)?

According to our analysis, the typical victims of raider attacks are

<sup>2</sup> William J. Baumol, 1990 “Entrepreneurship: Productive, Unproductive, and Destructive.” *Journal of Political Economy* 98: 893–921.

<sup>3</sup> This case was broadly described in the media. See the summary in the Russian article: Alexander Tretyachenko. *Bitva na Volge* [Battle on the Volga], *Top Secret*, № 11. November 9, 2011. <http://www.sovsekretno.ru/articles/id/2948/>. Accessed: September 18, 2013. The perseverance of business owners and public outcry helped to protect the company from raiders.

small or medium sized companies in fast-growing sectors of the Russian economy (at least before 2014). There is a structural equivalence between the economics of the region and the number of raiding attacks in each sector (for example, regions with a well-developed retail sector have a higher number of raiding attacks on trade businesses). We also argue that violent raiding is the result of a combination of “desirables” (the economic appeal of enterprises and the entire region) and “capabilities” (the rent-orientation of law enforcement in the region).

This article has the following structure. In the first section, we discuss the general theoretical background of this problem and the specifics of post-Soviet countries. We suggest several hypotheses to confirm or deny the suggestions made in previous studies using our empirical data. Furthermore, we offer and discuss a new approach to the estimation of the intensity of raiding attacks in Russia – the data of the Center of Public Procedures “Business against Corruption.” Finally, we will test the hypotheses with regression analysis and discuss the conclusions.

## General Theoretical Framework

Defining “violent corporate raiding” is difficult. A helpful and versatile discussion regarding the definition of this phenomenon in Russia and Ukraine is presented, for example, by Rojansky.<sup>4</sup> For the purpose of our study, it is important to emphasize that the phenomenon that we call “violent corporate raiding” is distinctive from “hostile takeover” – a phenomenon that has been broadly discussed for European countries and the USA.<sup>5</sup>

To define the difference between violent corporate raiding and hostile takeover we shall consider three main dimensions: level of legality (legal or illegal), level of violence (violent or non-violent) and participation of the state (private or governmental). The level of legality is a dichotomy that provides a clear distinction between hostile takeover (legal) and raiding (illegal).<sup>6</sup> Sometimes researchers also consider legality as a scale and distinguish, for example, white (mostly legal), gray (semi-legal) and black (illegal) raiding.<sup>7</sup>

However, illegality does not necessary mean that a raiding attack is violent. Moreover, the level of violence is a scale rather than a dichotomous

<sup>4</sup> Matthew Rojansky. 2014. “Corporate Raiding in Ukraine: Causes, Methods and Consequences.” *Demokratizatsiya* 22: 411–43.

<sup>5</sup> Hasani Mohd Ali. 2014. “Hostile Takeovers as Corporate Governance: A Legal Analysis of Tender Offer and Proxy Contest in China and Malaysia.” *Corporate Ownership and Control* 11: 558–66.

<sup>6</sup> Thomas Firestone. 2008. “Criminal Corporate Raiding in Russia.” *The International Lawyer* 42:4 (December 1): 1207–29.

<sup>7</sup> Rojansky. 2014. “Corporate Raiding in Ukraine.”

variable. Every case of raiding is more or less violent. Different violent instruments are often involved in a raiding attack in Russia, for example, the force used to capture an office, threats, arson, and imprisonment of the entrepreneur. The more violence a raider uses, the more government support (or administrative power) he requires. State agencies are not only involved in violent raiding, but also are often active participants, initiators and beneficiaries of the attacks. Thus, we will define violent corporate raiding as illegal, mostly violent and supported by state agencies as a method for redistributing property rights. It is probably the most harmful type of predatory behavior employed by state agencies, but at the same time not as frequent as, for example, bribery.

There are few comparisons of raiding in Russia with hostile takeovers in European countries. However, it would be incorrect to completely ignore hostile takeovers. In the next section, we will seek answers to the following three main questions: Who are the victims of raiders? Do certain conditions increase the probability of raiding attacks? How can we protect businesses against raiding? Then, we will discuss the part of this theoretical framework that can be used in the Russian context.

Several remarks should be made before attempting to answer these questions. Raiding attacks cannot be studied outside the context of state violence. As Max Weber suggested, an essential feature of a state is the monopoly of legitimate violence. However, the state is not the only actor capable of using violence, and sometimes, it must compete with organized crime in this area.<sup>8</sup> In Russia in the 1990s, such competition was caused by the weakness of the state,<sup>9</sup> when violent entrepreneurs (bandits) became a substitute for the state's function of ensuring business transactions and security.

Violent corporate raiding in Russia (as well as other post-Soviet countries) is deeply rooted in the 1990s and the institutional transformations that occurred after the collapse of the Soviet Union. In the 2000s, to address the state weakness of the Yeltsin era, Putin created a power vertical. Putin's innovation changed the situation mostly for big companies which started to create links to the government to protect their property rights.<sup>10</sup> But as the head of a still weak state, the president continued to

<sup>8</sup> Mark Findlay, Nafis Hanif. 2012. "Taking Crime out of Crime Business." *International Journal of Law, Crime and Justice* 40: 338–68, <http://dx.doi.org/10.1016/j.ijlcj.2012.05.002>.

<sup>9</sup> Vadim Volkov. 2002. *Violent Entrepreneurs: The Use of Force in the Making of Russian Capitalism*. Ithaca, NY: Cornell University Press and Vadim Volkov. 2004. "Hostile Enterprise Takeovers: Russia's Economy in 1999-2000" *Review of Central and East European Law* 29 (4): 527–548.

<sup>10</sup> Scott Gehlbach, Konstantin Sonin, and Ekaterina Zhuravskaya. 2010. "Businessman Candidates." *American Journal of Political Science* 54 (3): 718–36. <http://dx.doi.org/10.1111/j.1540-5907.2010.00456.x>

have difficulties controlling the behavior of state agencies.<sup>11</sup> This weakness created an opportunity for law enforcers to apply violent instruments to pursue their own personal interests, leading to such abuses as violent corporate raiding.

In practical terms, the state often represents a community of agents and groups, each of which is capable of exerting violent pressure on businesses in an effort to extract rents from them. In many theoretical studies, the state is depicted as a monolith that acts as a single entity. This approach is applicable for building theoretical models, but in empirical research, we will almost inevitably be confronted with a state that is broken into numerous components.<sup>12</sup> Along these lines, North, Wallis, and Weingast suggested considering the state as an “organization of organizations.”<sup>13</sup> Many agencies that have the authority and opportunity to use violence often operate independently, compete with one another and sometimes establish contradictory rules.<sup>14</sup>

The premise that the state is the “organization of organizations” is important to the study of corporate raiding in the regions of Russia. We assume that the regional authorities of all types (officials, law enforcement agencies, courts) may, under certain circumstances, act in their own interests and confiscate the earnings of business owners.

Several works address the problem of state violence and the incentives for it. For example, Charles Tilly showed how the need for war led to the formation of nation-states in Europe.<sup>15</sup> European states moved towards this goal in two ways – through coercion or concentration of capital. Unlike the countries in Europe, Russia followed the path of intensive coercion. North, Wallis and Weingast offer the concept of the limitation of violence as the main function of any state. In “natural states,” this problem is solved by creating privileged groups of the population to withdraw the rent in exchange for protection and security. “Open access orders” are known to be more efficient concerning economic growth and the protection of the rights of the population, and rent withdrawal by state agents is restricted through social control. We apply this concept, and we can indicate that Russia is a country with a “limited access order.”

<sup>11</sup> Stanistav Markus. 2012. “Secure Property as a Bottom-Up Process: Firms, Stakeholders, and Predators in Weak States.” *World Politics* 64 (2): 242-277.

<sup>12</sup> Fred S. McChesney. 1987. “Rent Extraction and Rent Creation in the Economic Theory of Regulation.” *The Journal of Legal Studies*, 16: 101–18.

<sup>13</sup> Douglass C. North, John Joseph Wallis, and Barry R. Weingast. 2012. *Violence and Social Orders: A Conceptual Framework for Interpreting Recorded Human History*, Reprint edition. Cambridge: Cambridge University Press, 2012.

<sup>14</sup> Ella Paneyakh. 2008 *Pravila igry dlya russkogo predprinimatelya* [Rules of the Game for the Russian Businessman]. Moscow: Koliobri.

<sup>15</sup> Charles Tilly. 1992. *Coercion, Capital and European States: AD 990 - 1992*, Revised edition, Cambridge, MA: Wiley-Blackwell.

If Tilly and North propose concepts to create a universal scheme of growth that can provide a “recipe” for the successful “transition” to a more developed state, then other authors tend to focus on the differences among separate countries. Therefore, according to the concept of a “distribution economy” (“*razdatochnaya ekonomika*”), Russia follows a path significantly different from the typical Western model of the competitive market.<sup>16</sup> In a “distribution economy,” assets are continuously expropriated and re-distributed. Competition among various market players does not disappear, but it shifts from the market to an administrative power struggle. In this context, “violent corporate raiding” is only a small part of the legitimate system of property “delivery/distribution” that has existed in Russia since czarist times. Moreover, compared with the scale of processes such as nationalization or privatization, the redistribution of wealth through violent corporate raiding has rather modest consequences.

In our opinion, both approaches can describe well the situation in contemporary Russia. For our analysis, we will consider several elements of these theories: the constant threat of violence in state-business relations, the heterogeneity of the state (particularly, the relative autonomy of state agencies in rent-seeking behavior), and the large role of administrative resources in raiding attacks. In the next section, we discuss the specific Russian context more closely.

### **Raiding Attacks in Russia: Context and Hypotheses**

The question that must be addressed at the beginning of our analysis is whether raiding is a problem for the economy or society. Although the previous owner of a business does not like property loss, the value of the new enterprise after a takeover may be higher than the total value of the two companies before the merger. Thus, an analysis of friendly and hostile takeovers in the United States during the 1980s-1990s showed that, in economic terms, these two phenomena are extremely difficult to separate.<sup>17</sup> The only differences are in the position of the owner and the coverage of the confrontation in the media. The consequences for the company following a hostile takeover are not much different from a conventional merger. This finding means that neither society nor the state will have any difficulties following the transfer of property from one owner to another. In such cases, raiding can be considered a form of competition.

However, such an approach regarding raiding has been strongly criticized. For example, some researchers have noted that the long-term

<sup>16</sup> Olga Bessonova. 1999. Razdatok: institutsional'naya teoriya khozyaystvennogo razvitiya [Hand-out Materials: Institutional Theory of Economic Growth in Russia]. Novosibirsk: IEIE SB RAS.

<sup>17</sup> William G. Schwert. 2000. “Hostility in Takeovers: In the Eyes of the Beholder?” *The Journal of Finance*, 55: 2599–2640 <http://dx.doi.org/10.1111/0022-1082.00301>.

consequences of hostile takeovers are negative<sup>18</sup> because the value of the company after the merger is often raised too high. An analysis of hostile takeovers that occurred in the United States from 1984 to 1986 showed that only 20 percent of enterprises were not sold by the new owners in the following two years.<sup>19</sup> The initiators of hostile take overs seek short-term gain and make little effort to add value to the captured assets. This description fits the raiders working in contemporary Russia. Another study shows that hostile takeover groups are particularly attracted to the assets that can bring high returns immediately after they are taken over.<sup>20</sup>

There was no discussion in Russia regarding raiding until the end of the 1990s, after the law “On Insolvency (Bankruptcy)” No.6-FZ was passed in 1998,<sup>21</sup> whereas Europe and the United States faced this problem much earlier.<sup>22</sup> Raiders in Russia are mostly the successors of violent entrepreneurs<sup>23</sup> who were forced to legalize their operations at the beginning of the 2000s, according to Kireyev.<sup>24</sup> The institutional aspects of Russian raiding are well described by Osipian.<sup>25</sup> He argues that Russian raiders use unclear ownership structures and corruption schemes to attack businesses. Osipian concludes that raiding in Russia has a predatory character because raiders attack healthy and profitable enterprises. This point will be the basis for our Hypothesis № 1: *Raiders attack healthy and profitable companies rather than weak and unprofitable enterprises, therefore this phenomenon should positively correlate with the economic development of the region.* Taking into account the Russian context, we can assume that raiding attacks are more common in the regions with highly developed industrial, construction and trade sectors because they have more companies that attract raiding attacks. An alternative hypothesis could be the following:

<sup>18</sup> Gregor Andrade, Mark Mitchell, and Erik Stafford. 2001. “New Evidence and Perspectives on Mergers,” *Journal of Economic Perspectives* 15: 103–20 <http://dx.doi.org/10.1257/jep.15.2.103>.

<sup>19</sup> Sanjai Bhagat, Andrei Shleifer, and Robert W. Vishny. 1990. “Hostile Takeovers in the 1980s: The Return to Corporate Specialization.” *Brookings Papers on Economic Activity*: 1–84

<sup>20</sup> Ettore Croci. 2007. “Corporate Raiders, Performance and Governance in Europe.” *European Financial Management*, 13: 949–78 <http://dx.doi.org/10.1111/j.1468-036X.2007.00387.x>.

<sup>21</sup> Elena Apevalova, and Alexander Radygin. 2009. “Bankrotstva v dvukhtsyachnye gody: ot instrumenta reyderov k politike «dvoynogo standart»” [Bankruptcies in 2000s: From Raiding Tools to “Double Standards” Policy].” *Economicheskaya Politika* 4: 91–124.

<sup>22</sup> Tilton L. Willcox, 1988. “The Use and Abuse of Executive Powers in Warding off Corporate Raiders.” *Journal of Business Ethics*, 7: 47–53 <http://dx.doi.org/10.1007/BF00381997>.

<sup>23</sup> Volkov. 2002. *Violent Entrepreneurs*.

<sup>24</sup> A. Kireev. 2007. “Raiding and the Market for Corporate Control: The Evolution of Strong-Arm Entrepreneurship.” *Problems of Economic Transition*, 50: 29–45 <http://dx.doi.org/10.2753/PET1061-1991500802>.

<sup>25</sup> Ararat L. Osipian, 2012. “Predatory Raiding in Russia: Institutions and Property Rights After the Crisis.” *Journal of Economic Issues* 46: 469–80.

violent corporate raiding is the consequence of the underdevelopment of the region where state agencies could not find alternative sources of rent and other instruments than violence. One could suggest that “white” or “gray” raiding (semi-legal and non-violent) is more common for developed regions, while “black” raiding occurs in the poorest regions. If the “necessity” rather than the “desire” is the trigger for violent corporate raiding, we would expect to see a negative correlation between the level of raiding and the development of the region. However, we show that the situation is different.

Meanwhile, we should not forget the other side of the problem: which factors explain the emergence of corporate raiding?<sup>26</sup> Non-Russian researchers traditionally associate the origin of violent pressure on people or businesses with the broader subjects of the quality of life and the broader business environment.<sup>27</sup> Traditionally, researchers have examined various features of economic crime, including ethnicity,<sup>28</sup> poverty,<sup>29</sup> quality of life in the neighborhood,<sup>30</sup> the sectorial structure in the region,<sup>31</sup> the presence of opportunities for crime,<sup>32</sup> and the overall economic level of the area.<sup>33</sup> Of course, economic crimes are much broader than corporate raiding. However, I extrapolate from this Western-focused literature to argue that corporate raiding in Russia is a result of “favorable conditions.”

The difference between favorable and unfavorable conditions for raiding attacks can be described in terms of the quality of the law enforcement system.<sup>34</sup> Therefore, we can formulate Hypothesis № 2: *Raiding*

<sup>26</sup> The emergence of “corporate raiding” in Russia was discussed in detail by Thomas Firestone. See: Thomas Firestone. 2008. “Criminal Corporate Raiding in Russia.” *The International Lawyer* 42 (4) (December 1): 1207–29.

<sup>27</sup> See for example: Ed Diener, and Eunkook Suh. 1997. “Measuring Quality of Life: Economic, Social, and Subjective Indicators.” *Social Indicators Research* 40:189–216 <http://dx.doi.org/10.1023/A:1006859511756>.

<sup>28</sup> Ashley N. Arnio, Eric P. Baumer. 2012. “Demography, Foreclosure, and Crime:: Assessing Spatial Heterogeneity in Contemporary Models of Neighborhood Crime Rates” *Demographic Research* 26: 449–88 <http://dx.doi.org/10.4054/DemRes.2012.26.18>.

<sup>29</sup> Alex Hirschfeld. 2008. “The Multi-Faceted Nature of Crime.” *Built Environment* 34: 5–20 <http://dx.doi.org/10.2148/benv.34.1.5>.

<sup>30</sup> Mary K. Wolfe, and Jeremy Mennis. 2012. “Does Vegetation Encourage or Suppress Urban Crime? Evidence from Philadelphia, PA.” *Landscape and Urban Planning*, 108: 112–22 <http://dx.doi.org/10.1016/j.landurbplan.2012.08.006>.

<sup>31</sup> Marilyn Brown. 1982. “Modeling the Spatial Distribution of Suburban Crime.” *Economic Geography*, 58: 247–261 <http://dx.doi.org/10.2307/143513>.

<sup>32</sup> Lance Lochner. 2004. “Education, Work, and Crime: A Human Capital Approach.” *International Economic Review* 45: 811–43.

<sup>33</sup> Tim Hall. 2010. “Where the Money Is: The Geographies of Organized Crime” *Geography* 95: 4–13.

<sup>34</sup> For example, Gerber & Medleson describe the Russian law enforcement bodies, especially the police, in terms of “predatory policing.” See: Theodore P. Gerber, Sarah E. Mendelson. 2008. “Public Experiences of Police Violence and Corruption in Contemporary



*attacks are more common in the regions where raiders can find support from state agents in the law enforcement system.* In other words, police, investigators, prosecutors and courts in these regions should be involved in rent-seeking behavior. We suggest that the most successful raiders form alliances among businesses, law enforcement officers and predatory governors.<sup>35</sup> In such cases, the authorities are more likely to start criminal proceedings against entrepreneurs, typically prosecuting them for so-called economic crimes.<sup>36</sup> Approximately 80 percent of the criminal cases filed against entrepreneurs in Russia deal with a situation where there is no victim.<sup>37</sup> This situation usually reflects a scenario in which law enforcement agents start the proceeding on their own initiative, without an outside party filing a claim. Therefore, we assume that the number of criminal proceedings filed against entrepreneurs as a proportion of the number of companies in a region is an indicator of the rent-orientation of enforcement agencies and their readiness to make a coalition with raiders. An additional hypothesis (which follows from the main hypothesis) is that *greater transparency in the regional court system and a larger number of lawyers can reduce the number of corporate raiding attacks.* In these conditions, it would be more difficult for law enforcement agencies to extract rent using their administrative resources.

One could argue that the casual relationship between the rent-seeking nature of local law enforcers and violent corporate raiding has the opposite direction. It should be recognized that this relationship is to some extent circular: the level of raiding in a region can increase the number of predatory law enforcers. However, we try to identify the “precondition.” There is no doubt that a predatory law enforcement system is the precondition for a raiding attack in a region. We argue that, without the support of the state agencies, violent corporate raiding is impossible. Even without a high level of raiding, law enforcement officers could be engaged in different types of predatory behavior, like corruption, extortion, and bribery. Predatory behavior among law enforcement agents does not always mean violent property redistribution; because such actions are relatively difficult, they

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Russia: A Case of Predatory Policing?” *Law & Society Review* 42 (1) (March 1): 1–44. doi:10.1111/j.1540-5893.2008.00333.x.

<sup>35</sup> The problem of “agent predation” in Russia is also discussed in Stanistav Markus. 2012. “Secure Property as a Bottom-Up Process: Firms, Stakeholders, and Predators in Weak States.” *World Politics* 64 (2): 242–277.

<sup>36</sup> Philip Hanson. “Reiderstvo: Asset-Grabbing in Russia.” Russia and Eurasia PP 2014/03. [https://www.chathamhouse.org/sites/files/chathamhouse/home/chatham/public\\_html/sites/default/files/20140300AssetGrabbingRussiaHanson1.pdf](https://www.chathamhouse.org/sites/files/chathamhouse/home/chatham/public_html/sites/default/files/20140300AssetGrabbingRussiaHanson1.pdf), accessed September 19, 2015.

<sup>37</sup> Vadim Volkov, Ella Paneyakh, Kirill Titaev. 2010. Proizvol’naya aktivnost’ pravookhranitel’nykh organov v svete bor’by s ekonomicheskoy prestupnost’yu [Production activity of law enforcement in the context of fighting with economic crime]. Analytical Paper. Institute for the Rule of Law.

require the help of professionals from business, the legal community, and other fields. If our first hypothesis is correct, it is possible to have predatory law enforcers without raiding, for example, in underdeveloped regions.

The third important group of studies considers methods for reducing the number of raiding attacks. There is a broad literature regarding anti-takeover measures,<sup>38</sup> which is, however, suitable mostly for the competitive market context, but not for “distribution economics.” We do not deny that the problem of hostile takeovers in Russia can be solved with legal instruments, but violent corporate raiding is completely different. The main question is how to limit the predatory behavior of state agencies. Shleifer and Vishny<sup>39</sup> suggested an interesting theoretical model: if every government good is supplied by at least two state agencies, the possibility of competition between them will decrease corruption. However, this model could not be applied to violent corporate raiding because the competition between state agencies for rent will be even more harmful.<sup>40</sup> Developing this idea allows us to suggest a positive substitute for the governmental protection of businesses in the same way that violent entrepreneurs are a negative substitute. Business associations could provide such mechanisms. As Dinissa Duvanova<sup>41</sup> shows, business associations in post-communist countries are not rent-seeking agents (as Olson suggested<sup>42</sup>); they act as “defensive organizations” and evolve as regulatory substitutes to the state. In our recent work,<sup>43</sup> we also show that the Center of Public Procedures “Business against Corruption” (BAC) could be an example of such an organization in Russia.

It is difficult to assess the role of business organizations in limiting corporate raiding on the basis of quantitative data. Therefore, we make a more general suggestion that different types of non-governmental

<sup>38</sup> Chamu Sundaramurthy. 2000. “Antitakeover Provisions and Shareholder Value Implications: A Review and a Contingency Framework.” *Journal of Management*, 26: 1005–30; Tsung-ming Yeh. 2014. “The Effects of Anti-Takeover Measures on Japanese Corporations.” *Review of Quantitative Finance and Accounting*, 42: 757–80 <http://dx.doi.org/10.1007/s11156-013-0361-0>

<sup>39</sup> Andrei Shleifer, and Robert W. Vishny, “Corruption.” *The Quarterly Journal of Economics*, 108: 599–617 <http://dx.doi.org/10.2307/2118402>

<sup>40</sup> Ella Paneyakh. 2014. “Faking Performance Together: Systems of Performance Evaluation in Russian Enforcement Agencies and Production of Bias and Privilege.” *Post-Soviet Affairs*, 30: 115–36 <http://dx.doi.org/10.1080/1060586X.2013.858525>.

<sup>41</sup> Dinissa Duvanova. 2013. *Building Business in Post-Communist Russia, Eastern Europe, and Eurasia: Collective Goods, Selective Incentives, and Predatory States*. Cambridge University Press.

<sup>42</sup> Mancur Olson. 1965. *The Logic of Collective Action: Public Goods and the Theory of Groups*. Cambridge: Harvard University Press.

<sup>43</sup> Andrei Yakovlev, Anton Sobolev, Anton Kazun. 2014. “Means of production versus means of coercion: can Russian business limit the pressure of a predatory state?” *Post-Soviet Affairs* 30 (2-3): 171-194.

organizations (NGOs) could be a limiting factor on violent corporate raiding. There is considerable literature regarding the impact of NGOs on Russian policy and law,<sup>44</sup> and the studies agree that this sector is poorly developed in Russia because of strong regulations. However, the situation in the Russian regions is clearly differentiated. Our third hypothesis is the following: *regions with more NGOs will be less exposed to violent corporate raiding*. This hypothesis also corresponds to the idea of North et. al.<sup>45</sup> regarding perpetual public and private organizations as a threshold condition for the transition to an “open access” society. Therefore, in regions that have more NGOs, raiders are exposed to more risk.

Our third hypothesis corresponds to the idea of Stanislav Markus<sup>46</sup> that in “weak states” alliances between business and other parts of civil society (community stakeholders, civil society, labor, in some cases investors, etc.) can secure property rights because they increase the risks for raiders. Our analysis will be different in two main points – we are dealing with real victims of raiding and testing our hypothesis on the regional level (in contrast, Markus analyses the attitude of all entrepreneurs to the potential threat of raiding at the firm level). However, a large number of NGOs at the regional level means that there is a greater possibility for coalitions between business and society to form. Our analysis supports the idea that securing property rights in Russia is a bottom-up process rather than one for state jurisdiction.

## Methodology

To determine the relationship between the level of economic crime and the state of the economy, researchers use a variety of statistical indicators, such as homicide rates.<sup>47</sup> Researchers also use complex indicators that address the total number of cases of arson, bombings, and extortion as well as statistical data regarding exposed criminal organizations.<sup>48</sup> These

<sup>44</sup> See for example: Janet Elise Johnson and Aino Saarinen. 2011. “Assessing Civil Society in Putin’s Russia: The Plight of Women’s Crisis Centers.” *Communist and Post-Communist Studies*, 44: 41–52 <http://dx.doi.org/10.1016/j.postcomstud.2011.01.002>; Christian Fröhlich, 2012. “Civil Society and the State Intertwined: The Case of Disability NGOs in Russia.” *East European Politics* 28: 371–89 <http://dx.doi.org/10.1080/21599165.2012.718269> and Jo Crotty, Sarah Marie Hall, and Sergej Ljubownikow. 2014. “Post-Soviet Civil Society Development in the Russian Federation: The Impact of the NGO Law.” *Europe - Asia Studies* 66: 1253–69 <http://dx.doi.org/10.1080/09668136.2014.941697>.

<sup>45</sup> Douglass C. North, John Joseph Wallis, and Barry R. Weingast. 2012. *Violence and Social Orders: A Conceptual Framework for Interpreting Recorded Human History*, Reprint edition. Cambridge: Cambridge University Press.

<sup>46</sup> Stanislav Markus. 2012. “Secure Property as a Bottom-Up Process: Firms, Stakeholders, and Predators in Weak States.” *World Politics* 64 (2): 242-277.

<sup>47</sup> Claudio Detotto and Edoardo Otranto. 2010. “Does Crime Affect Economic Growth?” *Kyklos*, 63: 330–45 <http://dx.doi.org/10.1111/j.1467-6435.2010.00477.x>.

<sup>48</sup> Vittorio Daniele and Ugo Marani. 2011. “Organized Crime, the Quality of Local Institutions

indicators can correlate with the level of violence against entrepreneurs. At the same time, these figures are rather conventional. For example, it is not always clear in the homicide statistics whether the murder was committed based on criminal or personal motives. Therefore, even with the use of official statistics, we cannot be sufficiently certain regarding the quality of the indicator.

The most serious problem concerning violent corporate raiding in Russia is that there are no official statistics cataloging these cases. From the Russia State Statistics Service (Rosstat), we used data describing the number of economic crimes and NGOs in each region, but these data are insufficient to discuss corporate raiding.

In this article, to measure the extent of violent corporate raiding we use the number of applications submitted to the Center for Public Procedures “Business against Corruption” (hereinafter BAC), which was established in 2011. From 2011 to 2013, the BAC received more than 600 reports from Russian entrepreneurs (these data are publicly available at <http://www.nocorruption.biz/>). Elsewhere, we have discussed the effectiveness of the BAC<sup>49</sup> and showed that the organization is the first example of a mechanism for the public protection of entrepreneurs by Russian business associations. In this study, we will not dwell on the effectiveness of this organization but will only use the database obtained during a previous study.

For an analysis at the regional level is important to define the location of raiding attacks. Although enterprises in Russia are sometimes registered in locations that differ from where they are actually conducting business, the database of BAC is quite accurate on this point. Every application to BAC goes through several steps of verifications and data collection, including a legal analysis conducted by experienced lawyers. Therefore, in the BAC data we can find information about the real location of every raiding attack.

An alternative indicator suggested by Rochlitz<sup>50</sup> is the number of raiding cases mentioned in the media. However, our analysis of the Integrum database of Russian mass media showed that every raiding case discussed in the media since 2011 is also listed in the CPP database, but fewer than 30 percent of the applications to the BAC are mentioned in the media. This bias is probably the consequence of two factors: the lack

and FDI in Italy: A Panel Data Analysis” *European Journal of Political Economy*, 27: 132–42. <http://dx.doi.org/10.1016/j.ejpoleco.2010.04.003>.

<sup>49</sup> Andrei Yakovlev, Anton Sobolev, Anton Kazun. 2014. “Means of production versus means of coercion: can Russian business limit the pressure of a predatory state?” *Post-Soviet Affairs* 30 (2-3): 171-194.

<sup>50</sup> Michael Rochlitz. 2014. “Corporate Raiding and the Role of the State in Russia.” *Post-Soviet Affairs* 30: 89–114 <http://dx.doi.org/10.1080/1060586X.2013.856573>.

of freedom in the Russian media and the unwillingness of some entrepreneurs to give their problem much publicity. Therefore, we consider that the database of the BAC has more detailed information regarding raiding cases than the mass media.

**Table 1. Comparison of BAC and RuFIGE Data (by Federal District)**

Federal District	Data of RuFIGE			Data of BAC	
	It is very likely that the company will undergo a raider attack	Business conditions in the region have improved in 2013-2014	Business conditions in the region have deteriorated in 2013-2014	Average number of applications	Number of applications per 100 billion ruble GRP
Southern	15.8%	13.8%	12.5%	12	2.963
Volga	8.7%	18.6%	28.1%	8	2.355
Central	5%	26.5%	16.6%	11	2.004
North-western	5.5%	24.5%	19%	5	1.544
North	-	-	-	5	1.109
Far Eastern*	-	-	-	2	0.921
Urals	4.9%	35.9%	16.2%	7	0.898
Siberian	7.8%	24.7%	17.6%	3	0.753
<b>Average value</b>	<b>7.3%</b>	<b>23.8%</b>	<b>19.8</b>	<b>7</b>	<b>1.54</b>

*Note: \*Data from North Caucasian Federal District and Far Eastern Federal District are not included in the table because of the low number of observations in RuFIGE.*

An additional way to check whether CPP data reflect reality, is to compare it with data collected by another method. In Table 1, we compare BAC data with the results of a survey of more than 2,000 entrepreneurs:

Russian Firms in the Global Economy (RuFIGE).<sup>51</sup> Because RuFIGE was not representative for all Russian regions (but only for industry sectors), we make a comparison of the data aggregated by federal districts.

The BAC data corresponds to the results of the RuFIGE survey quite well: the districts with a high number of applications to CPP also have less favorable conditions for business and the entrepreneurs there are more often afraid that they can become the victim of a corporate raiding attack.

We realize that our indicator has several serious limitations. First, not all entrepreneurs seek the help of business associations. It is likely that some entrepreneurs are ready to seek such help, whereas others prefer to solve their own problems independently. However, our dataset allows us to examine cases that were not mentioned in the media or statistics. Therefore, the BAC is currently the best source of information. Second, the larger number of reports to the BAC from a particular region can serve not as an indicator of the presence of problems but as an indicator of the greater popularity of the BAC in that region. This difficulty was partially solved by adding to the analysis the control variable “presence of a regional branch of BAC in the region.” Third, 11 out of 83 regions have not had any complaints submitted. In our analysis, we consider that these 11 regions had no violent raiding cases in the study period because, in the economic and social aspects, they are more similar to regions with a low number of raiding attacks. However, we also considered regions with zero applications as “missings.” Therefore, one of the regression models is calculated without these regions. Fourth, an application to the BAC does not always represent a real problem associated with raiding attacks. Some applications may be speculative in nature and may be used as an attempt to resolve a commercial dispute. This difficulty was solved by excluding the cases that could not be related to violent corporate raiding (out of the 611 complaints, 543 remained for the study).

Our further analysis considers these limitations. A summary of all the indicators used in our analysis is presented in Table 2 (the basic statistics regarding these indicators is presented in the appendix).

We calculated the share of available judicial decisions on the official sites of Russian regional courts to estimate the level of transparency – since 2008, courts are required to openly disclose a significant portion of their judgments online.<sup>52</sup> We did not expect courts to publish 100 percent of their judgments (they are not allowed to publish judicial orders in cases involving sexual issues or cases related to minors), but this indicator helps to compare the transparency of the law enforcement system of different

<sup>51</sup> For more information about this data see: <http://iims.hse.ru/en/rfge/kord>. Accessed: September 18, 2015.

<sup>52</sup> Michael Pozdnyakov. 2012. “Organizatsionnye i strukturnye ogranicheniya pri dostupe k sudebnym aktam sudov obshechey yurisdiksiii.” [Organizational and Structural Barriers to Access to Judicial Acts of General Jurisdiction] Moscow: IRL EU, 2012.

regions. The rest of the data were obtained from the Russia State Statistics Service (Rosstat) for the year 2013.

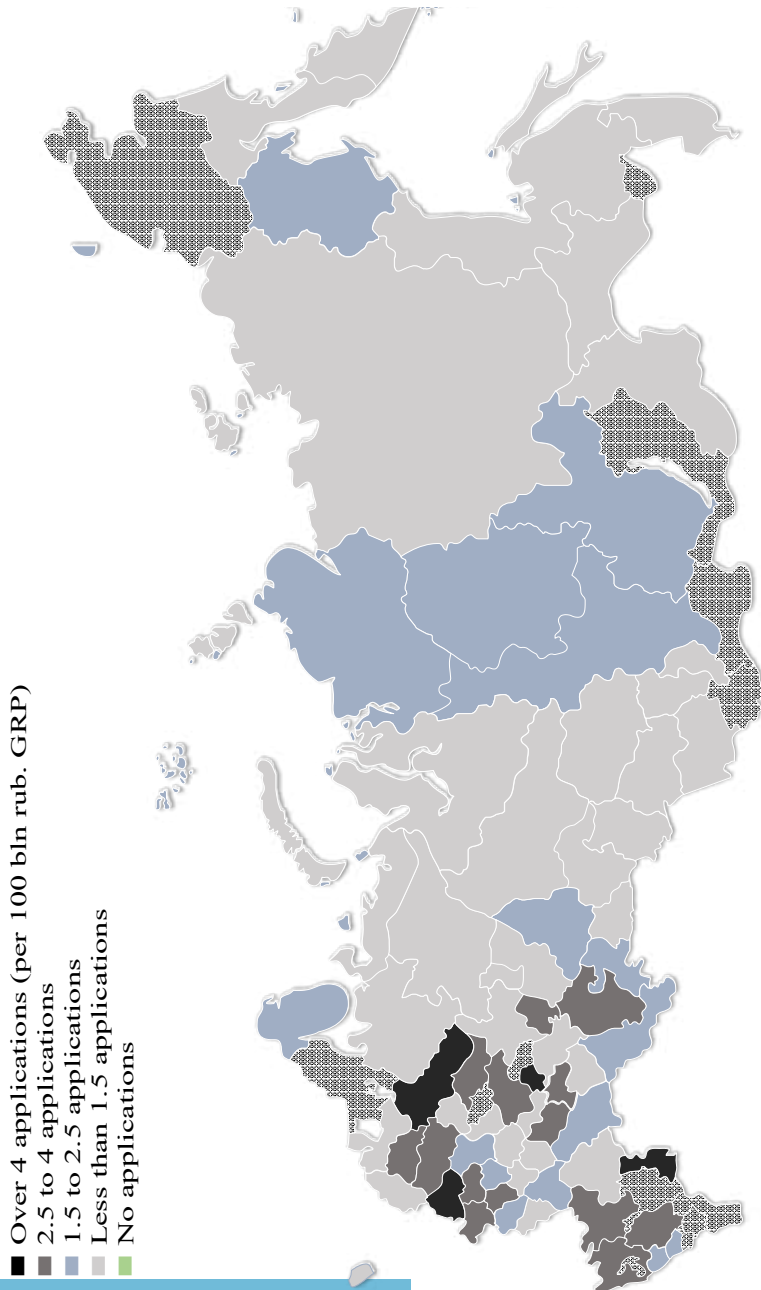
**Table 2. Indicators Used in the Analysis**

Factor	Indicator/Vari- able	Normalization of variable	Source of information
Violent corporate raiding	Number of applications to BAC	Number of applications per 100 billion ruble GRP	BAC
Condition of law enforcement system	Number of economic crimes	Number of economic crimes per 100 companies	Rosstat
	Number of lawyers	Number of lawyers per 10,000 citizens	Ministry of Justice of the Russian Federation
	Percent of judicial orders published and accessible on the regional court site	N/A	Author's calculations based on information from court sites
Condition of NGO sector	Number of NGOs	Number of NGOs per 100 citizens	Rosstat

### Mapping Violent Raiding in Russia

To account for the size of a region in our indicator, we have divided the number of raiding attacks in the region by the Gross Regional Product (GRP). In our opinion, the GRP provides a relatively objective picture of the region's financial situation. The level of violent criminal raiding in various regions of Russia, as measured by this indicator, is displayed on the map in Figure 1. We have divided the regions into the following five groups: a very high level of raiding (over 4 applications to the BAC per 100 billion rubles in GRP), a high level of raiding (2.5 to 4 applications), a medium level of raiding (1.5 to 2.5 applications), a low level of raiding (less than 1.5 applications) and regions with no applications. We will use this classification in our further analysis.

**Figure 1. Map of Intensity of Raiding Attacks in Russian Regions (Number of Applications to the BAC per 100 Billion Rubles GRP).**





As Figure 1 shows, violent corporate raiding is especially common in the European part of Russia, with the highest level of raiding in the Chuvash Republic and the Astrakhan, Vologda and Smolensk regions.

Before we continue our analysis, we must comment on the practical interpretation of these results. If the region has, for example, 4 raiding attacks per 100 billion GRP, what does it mean for the economy? Is this a considerable amount? Based on the summary of conflicts provided by the BAC, we can estimate the average amount of “damage” brought to the enterprise by the raiders. The damage may take the form of claims for allegedly overdue debts, stolen shares or the tangible assets of the company. The amount of damage is between 10 million and 400 million rubles, with the median value of 77.5 million and the average value of 120 million rubles. Let us assume that the average loss from a raider attack is worth approximately 100 million rubles. These amounts alone indicate that raiders do not attack large and expensive companies.

If the average loss from a raider attack is 100 million rubles, 1 case per 100 million rubles means that the region loses 0.1 percent of its GRP. Unfortunately, these estimates are highly approximated. For several reasons, it is difficult to assess the real extent of the damage. First, the loss suffered by the enterprise, according to an expert opinion or the applicant’s report, may significantly differ from the real situation. Second, in some cases, the company is simply transferred from one owner to another, and on the regional level, that transfer may not be felt at all (see a similar analysis of a hostile takeover<sup>53</sup>). Third, the impact of a raider attack cannot always be estimated in terms of money losses. Job losses or the deterioration of the investment climate may force companies to close for reasons unrelated to violence, whereas unemployment or the deterioration of the investment climate may represent the most serious consequences of the studied phenomenon. Before we explain these regional differences, it is necessary to answer another question: who is the typical victim of a raiding attack?

### Victims of Raiders

To answer the question which companies are more likely to be attacked by raiders, we identify the company’s core business specialization based on information from the BAC (see Table 3).

The most attractive areas of raiding attacks include the wholesale & retail sector, construction and industry (together, they account for 40 percent of all reported cases). Rochlitz<sup>54</sup> also shows that raiders prefer to focus on the construction and retail businesses. These two areas were

<sup>53</sup> William G. Schwert. 2000. “Hostility in Takeovers: In the Eyes of the Beholder?” *The Journal of Finance* 55: 2599–2640 <http://dx.doi.org/10.1111/0022-1082.00301>.

<sup>54</sup> Michael Rochlitz. 2014. “Corporate Raiding and the Role of the State in Russia.” *Post-Soviet Affairs*, 30: 89–114 <http://dx.doi.org/10.1080/1060586X.2013.856573>.

fast-developing sectors of the Russian economy before the 2014 crisis; therefore, it is unsurprising that they have turned into main targets. Approximately 30 percent of raiders' victims are individual entrepreneurs, most of whom also have businesses in the trade or services sectors (we cannot uniquely identify their specializations based on the BAC data).

**Table 3. Sphere of business affected by violent raiding (according to the data of the CPP BAC from 2011-2013).**

Type of Business	Total reports received	Total reports filed
Wholesale & retail	105	20%
Industry	48	9%
Construction	59	11%
Real estate	23	4%
Financial services	21	4%
Agriculture and animal breeding	20	4%
Individual entrepreneurs (no information regarding actual sphere of activity)	157	30%
Other	92	18%
Total	525	100%

*Source: Calculated by the author based on the BAC data on 525 reports received from 2011 to 2013 from the companies whose core business could be identified.*

We assume that there should be some structural equivalence between the level of individual application to the BAC (the spheres of business affected by corporate raiding) and the region (the economic structure of the regions most affected by corporate raiding). Therefore, we suppose that the regions with high shares of trade, industry and construction have higher levels of corporate raiding. Table 4 shows that construction, industry and retail have experienced pressure on their businesses.

From Table 4, we can assume that there is a linear relationship between the level of raiding in the region and the share of retail and industry. However, there is no direct relationship between the share of the construction sector in the GRP of the region and the level of raiding attacks. One possible explanation could be that the subsidized regions in Russia are also the regions with a high share of construction but with low development in other sectors – in these regions, subsidies are the main and easier source of political rent for elites rather than corporate raiding. In the

following analysis, we will use only the share of retail and industry as an indicator of the economic appeal of the region for raiders.

**Table 4. Economic structure of regions (as a percentage of the GRP) with different levels of raiding attacks.**

Level of Raiding	Share in GRP of the region		
	Wholesale & retail	Industry	Construction
No applications	12.68	9.22	10.1
Low level of raiding	13.6	15.23	7.93
Medium level of raiding	13.64	18.85	6.54
High level of raiding	15.92	19.34	7.19
Very high level of raiding	15.87	22.8	7.35
<b>Average</b>	<b>13.96</b>	<b>15.96</b>	<b>7.88</b>

*Note: The intensity of raiding corresponds to the map in Figure 1.*

### Violent Corporate Raiding as a Combination of “Desires” and “Capabilities”

Based on the previous analysis, we can generalize that a high share of retail and industry in the region means that raiders can find a greater number of attractive victims for the attacks. Therefore, the economic development of the region increases the “desire” of raiders to attack and in this way, increases the level of violent corporate raiding. However, it is insufficient to explain the problem by concluding that raiders attack prosperous companies. Raiders also should be able to seize the enterprise and avoid punishment; they should have not only the desire but also the capability. We can assume that a higher level of raiding will take place in the regions where raiders have both a large number of potential victims and numerous opportunities for a raiding attack. As an indicator of opportunities, we select the number of economic crimes per 100 companies, which indicates the rent-oriented behavior of the law enforcement in the region.

Table 5 shows that the regions with both a high share of retail and industry and a high number of crimes per 100 companies have a significantly higher level of raiding. The regions with a low share of retail and industry and a low number of crimes per 100 companies are less susceptible to raiding.

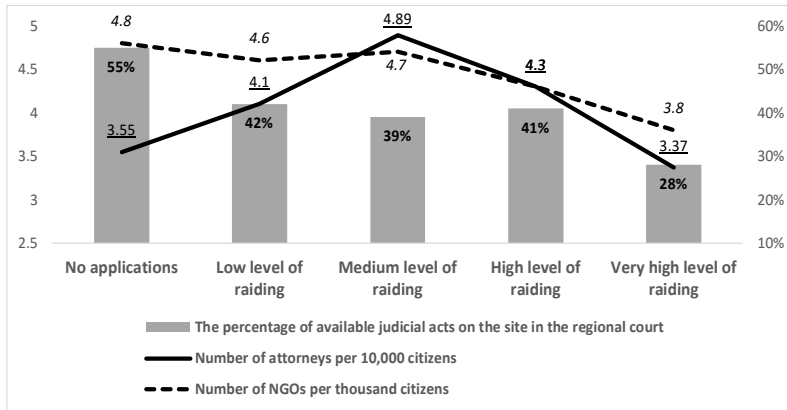
The regions with a high level of economic crime and a high share of trade and industry also differ from other regions in the relatively smaller number of NGOs and lawyers as well as a less transparent judicial system. In Figure 2, we can observe the differences of these indicators in the regions with different levels of violent corporate raiding.

**Table 5. Average Number of Applications per 100 bln. GRP in Regions with Different Economic Structures and Law Enforcement System Quality**

		Number of economic crimes per 100 companies	
		Fewer than 4 crimes per 100 companies	More than 4 crimes per 100 companies
Share of retail and industry	More than 35%	1.53	2.47
	34% or less	0.86	1.85

*Note: The figures are the number of applications in the BAC per 100 billion rubles GRP*

**Figure 2. Number of NGOs, Attorneys and Published Judicial Acts in the Regions with Different Levels of Violent Corporate Raiding**



From the figure, we can observe that the group of regions with a very high level of raiding has on average fewer attorneys and NGOs, and courts publish fewer decisions on their official sites. For the published judicial acts and number of NGOs, the relationship with the level of raiding is almost linear.<sup>55</sup>

<sup>55</sup> NGOs actively opposed other types of crime, such as the Mafia attacks on business in Italy. See: Baris Cayli. 2013. "Italian Civil Society against the Mafia: From Perceptions to Expectations." *International Journal of Law, Crime and Justice* 41 (1) (March): 81–99. doi:10.1016/j.ijlcrj.2012.11.005.

Interestingly, the number of attorneys has a non-linear relationship with the level of corporate raiding. The number of attorneys per 10,000 citizens increases in the first three groups of regions with a zero to medium level of corporate raiding. This result is an expected pattern because the existence of raiders creates a demand for defenders. However, regions with high and very high levels of raiding have a smaller number of attorneys, which we can explain as caused by an unfavorable work environment for lawyers. Government agencies prevent the development of a strong legal community. This hypothesis, however, should be tested in detail in future studies.

One could argue that sometimes lawyers are engaged in raiding attacks themselves. It is undoubtedly true because violent corporate raiding is impossible without legal assistance. However, we still consider the community of lawyers to be an obstacle to raiding because the number of lawyers engaged in raiding is marginal and insignificant (in comparison with the whole corporation of attorneys). Let's assume that in 2011-2013 about 1,500 lawyers took part in 543 different raiding attacks (approximately 3 lawyers per 1 attack). Even if we agree with this overestimation (because this number does not take into account that one lawyer may be involved in several raiding attacks), it will be approximately 2 percent of the whole community of attorneys in Russia.<sup>56</sup> The majority of lawyers definitely work on the side of business and are interested in expanding their community.<sup>57</sup>

### Hypothesis Verification

Using the variables described above, we built several linear regression models (Table 6) with the "number of applications per 100 billion ruble GRP" as the dependent variable. We did not include the share of the construction sector and the number of attorneys in the model because they did not have a linear relation with the level of raiding attacks in the region.

Model 1 describes the influence of the economic structure of the region on the level of violent corporate raiding. Regions with a higher share of retail and industry in the GRP experience violent raiding more often. In Model 2, we also add a variable that describes the quality of the law enforcement system in relation to the number of registered economic

<sup>56</sup> In 2014, about 70,232 people had the status of attorney according to the registry of the Ministry of Justice of Russia [<http://lawyers.minjust.ru/lawyers-portal/Lawyers>].

<sup>57</sup> We show that benefit-oriented lawyers in Russia are not interested in the creation of professional associations because a strong professional community would create risks for their activities. See: Anton Kazun, Andrei Yakovlev. 2014. "Who Demands Collective Action in an Imperfect Institutional Environment? A Case-Study of the Professional Community of Attorneys in Russia." SSRN Scholarly Paper. Rochester, NY: Social Science Research Network (October 27). <http://papers.ssrn.com/abstract=2515351>.

crimes per 100 companies. The regions with a higher number of economic crimes also have a higher level of corporate raiding. We interpret this relationship as the capability of raiders to use law enforcement systems that have a rent-seeking orientation. In Model 3, we also include the number of NGOs and the share of available judicial acts as binary variables (these variables are not significant as numeric variables) to describe the preconditions more clearly.

**Table 6. Linear Regression Models**

<b>Dependent variable: Number of applications per 100 billion ruble GRP</b>				
	Model 1	Model 2	Model 3	Model 4
Share of retail (% GRP)	0.069* (0.032)	0.071* (0.035)	0.053* (0.021)	0.82* (0.040)
Share of industry (% GRP)	0.041** (0.011)	0.039* (0.011)	0.038* (0.012)	0.035* (0.13)
Number of economic crimes per 100 companies		0.126* (0.056)	0.127* (0.057)	0.142* (0.070)
More than 25% of judicial acts are available			-0.601* (0.256)	-0.332 (0.405)
More than 4 NGOs per 1,000 citizens			-0.767* (0.378)	-0.719* (0.317)
<b>Control variables</b>				
Existence of a BAC branch in the region	Yes	Yes	Yes	Yes
Media Freedom Index	Yes	Yes	Yes	Yes
Duma Election Results in 2011 (% of United Russia)	Yes	Yes	Yes	Yes
Constant	-0.189	-0.643	0.688	-0.207
R square	0.166	0.205	0.262	0.211
Number of regions	83	83	83	72

Notes: \*\* significant at the level of 0.01; \* significant at the level of 0.05. The Media Freedom Index is an indicator constructed by Center for the Defense of Publicity [<http://www.gdf.ru/map/list/2010>]. It has 4 gradations: 1 – absolutely free, 4 – absolutely dependent.

Based on the results of Models 1-3, we can conclude that all our hypotheses are relatively confirmed. We observe a strong relationship between violent corporate raiding and the economic structure of the region (Hypothesis 1) and between violent corporate raiding and the quality of the law enforcement system (Hypothesis 2). The links between the number of lawyers and transparency of the judicial system (Hypothesis 2.2.) are not very strong but sufficiently significant to indicate that further investigation is necessary. The number of NGOs is a strong threshold condition for a high level of raiding (Hypothesis 3); however, it also has a non-linear effect. The regions with a high level of violent corporate raiding have fewer NGOs, but if the region has more than 4 NGOs per one thousand citizens, it does not affect the level of raiding.

Model 4 is calculated for 72 regions from where entrepreneurs made at least 1 application to the TCC BAC (if we consider the regions without applications over missing variables). The significance of all variables, except the share of judicial cases, remind the same. Therefore, we suggest that the model is sufficiently robust.

## Discussion of the Results

In this article, we have shown that the level of violent corporate raiding in the region is partly the result of three threshold conditions: the high economic appeal of the region, the poor quality of the law enforcement system and the low level of civil society development. The poor quality of law enforcement and weak civil society are likely the result of the predatory activity of government agencies. On the one hand, these government agencies use their political and administrative power in the courts and, on the other hand, impede the development of NGOs that can protect entrepreneurs. In general, our results comply with previous investigations of violent corporate raiding in Russia that were discussed above. Raiders in Russia attack relatively prosperous companies that do not have sufficient power for protection.

In our opinion, raiders are rational economic agents who try to maximize their benefit and minimize their costs. Therefore, a simplistic formula for a successful raiding attack is:

$$[\text{Amount of required resources}] + [\text{Risks}] < [\text{Value of the assets of the captured enterprise}]$$

If the value of the assets of the potential victim is greater than the risks and amount of resources required from the raiders, the decision will be made to attack. If the risks are higher or the raiders have insufficient political or administrative resources, the raiding attack will not be

successful. Of course, this model is a simplification of reality, but it shows unambiguously how the situation could be improved.

In our opinion, the key preventative factor is increasing the risks for raiders. The number of lawyers and NGOs in the region achieves this goal and thereby lowers the probability of a raiding attack. The transparency of the courts and the high quality of the law enforcement system will also increase the risks for raiders and increase the amount of resources that they must spend.

The theoretical model also explains why 30 percent of all applications to the TCC BAC were made by individual entrepreneurs. Individual entrepreneurs are a perfect victim for raiders in Russia because they do not have resources to protect themselves, and the risks for raiders are near zero. In these cases, the worth of the assets (right side of the model) is not very high, but the left side of the model will be even lower. Currently, raiders in Russia do not attack large and strong companies because doing so requires too many resources – these are the same results described by Rochlitz.

We understand that our results have serious limitations, which were discussed in the methodology section. The most serious restriction of our analysis is the indirectness of the data regarding raiding attacks. This limitation is mostly caused by the lack of statistical information concerning this problem in Russia. Perhaps if we locate better and clearer measures of raiding attacks, we will obtain additional confirmation for our hypotheses or new counter-arguments.

## Conclusion

In Russia, violent corporate raiding is a widely used instrument to extract rents via property redistribution with the backing of powerful state agencies. It is important to distinguish between hostile takeovers as a basic part of a market economy and violent corporate raiding as a phenomenon of a distributional economy. This distinction is caused by dual processes in the economy and politics of Russia.

We assume that there should be the following three preconditions for the rise of violent corporate raiding in the regions of Russia.

- **High economic development.** Violent corporate raiding is a phenomenon associated with wealth, not poverty. Some sectors of the economy are more appealing for violent corporate raiding (retail, industry) because of the ease of the disposal of assets. It is easier to sell a building, and it is difficult to make something with human capital or technologies (which are more attractive for hostile takeovers). This finding may seem trivial but it allows making practical conclusions. At least it helps identifying the



“risk areas” - regions where bona fide officials of civil society should be more alert and active.

- **Rent-orientation of the law enforcement agencies.** We estimate this orientation as the relative number of criminal cases versus entrepreneurs. Only in regions where raiders can find support in governmental structures, is violent corporate raiding possible. If a hostile takeover is mostly a matter of the *interpretation of law*, violent corporate raiding is a matter of the *application of the law*. This phenomenon is the result of the illegal application of a legal system. Raiders want to be certain of their impunity. Therefore, to Markus’s idea of “alliances” with stakeholders in civil society and Duvanova’s “defensive organizations” we can add that raiders also have to make coalitions (on the local or regional level) to reduce the risks of illegal activity. Testing the existence of such coalition could be an interesting hypothesis for future research.
- **Lack of resistance and control.** Violent corporate raiding is also a result of the lack of confrontation with rent-oriented law enforcement agencies. Attorneys, NGOs or the execution of official procedures (such as the publication of judicial acts) are barriers to efficient rent-extraction.

Although these findings may seem intuitive, we made the first attempt in this article to test them empirically. We hope that this survey will contribute to the analysis of violent corporate raiding in post-communist countries.

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## Appendix

### Quantitative Variables

	Average	Mini- mum	Maxi- mum	Number of regions
Share of industry	15.96	0.2	42.8	83
Share of construction	7.88	3	19.5	83
Share of wholesale and retail trade	13.96	0.8	33	83
Crimes in business per 100 companies	3.32	0.48	31.21	83
NGOs per one thousand residents	4.6	1.3	8.6	83
Percentage of accessible judicial orders	43	0	100	83
Media Freedom Index (from 1 – free to 4 – not free)	3.01	1	4	83
Duma Election Results in 2011 (% of United Russia)	49	29	99.48	83

### Binary variables (number of regions)

Variable	No	Yes
Over 25% of judicial orders accessible	32	51
More than 4 NGO per one thousand residents	33	50
Presence of BAC in the region	62	21



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15. Extent and Nature of Circulation		Average No. Copies Each Issue During Preceding 12 Months	No. Copies of Single Issue Published Nearest to Filing Date	
a. Total Number of Copies ( <i>Net press run</i> )		263	210	
b. Paid Circulation ( <i>By Mail and Outside the Mail</i> )	(1)	Mailed Outside-County Paid Subscriptions Stated on PS Form 3541 (Include paid distribution above nominal rate, advertiser's proof copies, and exchange copies)	45	41
	(2)	Mailed In-County Paid Subscriptions Stated on PS Form 3541 (Include paid distribution above nominal rate, advertiser's proof copies, and exchange copies)	0	0
	(3)	Paid Distribution Outside the Mails Including Sales Through Dealers and Carriers, Street Vendors, Counter Sales, and Other Paid Distribution Outside USPS®	23	19
	(4)	Paid Distribution by Other Classes of Mail Through the USPS (e.g., First-Class Mail®)	0	0
c. Total Paid Distribution [ <i>Sum of 15b (1), (2), (3), and (4)</i> ]		68	60	
d. Free or Nominal Rate Distribution ( <i>By Mail and Outside the Mail</i> )	(1)	Free or Nominal Rate Outside-County Copies included on PS Form 3541	12	12
	(2)	Free or Nominal Rate In-County Copies Included on PS Form 3541	0	0
	(3)	Free or Nominal Rate Copies Mailed at Other Classes Through the USPS (e.g., First-Class Mail)	0	0
	(4)	Free or Nominal Rate Distribution Outside the Mail ( <i>Carriers or other means</i> )	4	4
e. Total Free or Nominal Rate Distribution ( <i>Sum of 15d (1), (2), (3) and (4)</i> )		16	16	
f. Total Distribution ( <i>Sum of 15c and 15e</i> )		84	76	
g. Copies not Distributed ( <i>See Instructions to Publishers #4 (page #3)</i> )		179	134	
h. Total ( <i>Sum of 15f and g</i> )		263	210	
i. Percent Paid ( <i>15c divided by 15f times 100</i> )		81%	79%	

\* If you are claiming electronic copies, go to line 16 on page 3. If you are not claiming electronic copies, skip to line 17 on page 3.



**UNITED STATES  
POSTAL SERVICE®**

**Statement of Ownership, Management, and Circulation  
(All Periodicals Publications Except Requester Publications)**

16. Electronic Copy Circulation	Average No. Copies Each Issue During Preceding 12 Months	No. Copies of Single Issue Published Nearest to Filing Date
a. Paid Electronic Copies <span style="float: right;">▶</span>	81	93
b. Total Paid Print Copies (Line 15c) + Paid Electronic Copies (Line 16a) <span style="float: right;">▶</span>	149	153
c. Total Print Distribution (Line 15f) + Paid Electronic Copies (Line 16a) <span style="float: right;">▶</span>	165	169
d. Percent Paid (Both Print & Electronic Copies) (16b divided by 16c × 100) <span style="float: right;">▶</span>	90%	91%

I certify that 50% of all my distributed copies (electronic and print) are paid above a nominal price.

17. Publication of Statement of Ownership

If the publication is a general publication, publication of this statement is required. Will be printed in the \_\_\_\_\_ issue of this publication.  Publication not required.

18. Signature and Title of Editor, Publisher, Business Manager, or Owner

Date  
  
10/1/2015

I certify that all information furnished on this form is true and complete. I understand that anyone who furnishes false or misleading information on this form or who omits material or information requested on the form may be subject to criminal sanctions (including fines and imprisonment) and/or civil sanctions (including civil penalties).

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