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# Russian Business Medium: Competition Problems

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### ABSTRACT

The research purpose is the system analysis of the business medium in Russia, its main characteristics and features detection that, according to the authors, will allow to adapt the existing approaches to management of the companies competitiveness to the Russian realities taking into account the revealed restrictions. During the research, it was revealed that in the Russian business medium the forces of the non-market character, finally leading to competition distortion, have the considerable impact on the companies. In the study, the competition distortion is presented as the sophisticated multidimensional phenomenon requiring the complex study. In article, the short review of the competitiveness assessment existing methods is made and the application need of the companies' competitiveness assessment method, constructed on the analysis of the wide range of factors that define the business specifics in the Russian reality, is proved. The competition-expanded understanding based on the institutional approach is offered. The next step in the development of the proposed approach is the allocation of such phenomenon as the competition distortion and its separate study. Proceeding from the institutional approach the competition distortion is considered in three planes: The economy - the economic rules distortion, the state system - the constitutional rules distortion, the society - the distortion above - constitutional rules. A large number of different manifestations of the competition distortions in the Russian business medium was revealed. The competition distortion reasons are defined, the competition distortion influence to the companies' management organization is examined.

**Keywords:** The Business Medium, Competitiveness, The Competitiveness Assessment Method, The Competition Distortion, The Institutional Environment

**JEL Classifications:** D23, L22, F12

## 1. INTRODUCTION

The evolution of the researchers' views on the competitive relations methodology for almost century history highlighted the fundamental role of competition in the productive forces improvement, its unique impact on the world business processes in the national and global economy.

During theory and practice development the competition was considered as a universal phenomenon of the economic activity, interaction and functioning of the individuals of the organizations and economic systems. Thus the role of this phenomenon in formation of incentives, factors and criteria of the economic units' competitiveness, which is the purpose of their formation, reproduction and development, was especially allocated (Gafurov et al., 2012).

Dynamically developing, the market competition theory finds also the broadest practical application. In general, works on this subject can be divided into the researches on the competition theory and the competition researches in the applied purposes. A large proportion of the theoretical works on the competition is devoted to the description of the competition various models. In works on competitiveness most often, the attention is paid to questions of the competitiveness researches, competitive strategy and competitive advantages. Thus, there is a limited number of scientific works where distortion of the competition is allocated as a separate object of the research. Besides, in these works only separate aspects of noted phenomenon are studied.

Most often, the competition is defined as the economic competition. In literature, it is possible to meet three approaches

to the competition understanding: Behavioral (competition is the rivalry between sellers), structural (competition is the existence in market of a large number of the independent buyers and sellers and those conditions prevailing in it) and functional (competition is the main driving force of the economic development) (Filosofova and Bykov, 2012). Thus, if we talk about the competition distortion, the discourse can go about: The competition distortion, the market structure and conditions distortion, the distortion of the economic development driving force.

The analysis of a number of studies on the business medium of domestic companies has allowed to allocate its following characteristic features, which have a significant impact on the activities of Russian companies: The economic structure transformation; the competition low level; the competition nature, the administrative resource impact.

In general, it is possible to allocate the following main aspects defining the competitive medium distortion in Russia:

- The economic and political power concentration of (Martynov, 2009; Nureev, 2001; Privalov, 2013);
- The transactions localization - The economic agents work mainly not on depersonalized market, consisting of the infinitely large number of participants, but locally. For designation of this phenomenon the term "Network capitalism" is used (Oleinik, 2009);
- The business concentration, the business groups rapid development (Avdasheva and Dementyev, 2000; Oleinik, 2009);
- The generalized and institutional trust low level, and the imposed political and economic power relations (Oleinik, 2009);
- The absence of the uniform economic and legal space, heterogeneity of the Russian economy (Ivanter and Gurova, 2013; Oleinik, 2009);
- The absolute power of managers, which welfare is most often determined not by the company effective functioning or restructuring, but semi-legal assets withdrawal (Bim, 1996; Cull et al., 2002);
- The alternative formal institutes emergence. These alternative institutes are so-called "Roofs" and "Black" arbitral courts (Kuz'minov et al., 2006);
- The system corruption (Kostinkov, 2015; Panfilova, 2013; Reznik, 2014).

Thus, it is possible to note that the Russian business environment possesses a number of the specific features significantly limiting applicability of the competitiveness management traditional instruments of the companies developed to the particular economic and legal space.

## 2. MATERIALS AND METHODS

Now there is no uniform standard interpretation of the concept "Competitiveness." According to Porter: "Competitiveness is the property of the product, the service, the market relations subject to act in the market on an equal basis with the similar goods, services or the competing subjects of the market relations which are present

there. This property assessment allows to mark out high, average and low competitiveness" (Porter, 2008). It should be noted that in economy the definition "Competitiveness" is used for the interpretation of the different level categories. Therefore, in the competitiveness concept systemic study Azoyev and Chelenkov distinguish the hierarchical structure, which sequentially includes the assessment of goods, enterprise, industry and economy in terms of their superiority over the similar competing sites (Azoyev and Chelenkov, 2000). Therefore, if it is about the competitiveness evaluation, as the studied object can be meant: The goods, the company - the micro-level, the industry - the meso-level, the economy (the country in general) - the macro-level. Therefore, there cannot be a uniform methodology for assessing so different categories.

Let's carry out the analysis of the competitiveness assessment various methods from the simplest object of the study (product/service) to the most difficult - the country in general. In general, the competitiveness evaluating process of products consists of the following stages: The comparison basis selection, the range of the parameters estimates, the individual and group indicators calculation, the integral index calculation, the analysis result, conclusions. The main competitiveness evaluation parameters of the products are the quality level and the consumption price. Lifits proposes to classify the assessing methods of the goods competitiveness depending on: The used principle; the criteria nomenclature; the assessment stage; data presentation forms (Lifits, 2007).

The study (Sadriev and Gali, 2014) is the attempt to systematize the most known approaches to the companies' competitiveness assessment. As a result, the authors concluded that all the techniques described in the article based on the assumption that economic space is common and everywhere identical market laws work, and the companies' competitiveness is the result of the superiority of the company over its competitors on the external and internal indicators of its performance.

If to consider the approaches to the study of the industries and regions competitiveness, at the meso-level, most experts adhere to the views on competitiveness, similar to those that form the competitiveness basis of the companies' assessment methods. For example, scientists of Kazan (Privolzhskiy) Federal University Gafurov, Safiullin, Safiullin believe that the productivity as a result of the business processes effectiveness is the competitiveness key factor. According to scientists, in the modern conditions, requiring constant product, technological and organizational innovation, it seems appropriate to consider productivity as the efficiency integral measure of the resource use, characterizing the contribution of economic sectors of economy to gain the territory competitiveness at the expense of structural modernization of the industrial sector and build a competitive advantage profile, priority productions. At the same time, a strategic competitive advantage becomes the efficiency of business processes, defines the quality management system (Gafurov et al., 2012).

In practice, the country's competitiveness assessment is carried out while the preparation of the various international rankings of

national competitiveness. Currently, the most authoritative of them admit: The global competitiveness rating of the World Economic Forum (Davos, Switzerland); the international competitiveness rating of the International Institute of Management Development (Lausanne, Switzerland); the “Business development conditions” Rating of the World Bank Group (IMD World Competitiveness Yearbook, 2015); The Global Competitiveness Report 2014-2015, 2015; Doing Business, 2016). When determining the country’s index for these versions the various methods are used. In particular, the methodology of the World Economic Forum is based on the combination of public statistics and the results of the global survey of the companies’ heads.

Thus, the analysis of the above methods allows to state the following: The assumption that economic space is common and everywhere identical market laws work, and the competitiveness is the result of superiority over competitors on certain indicators, practically all modern competitiveness assessment methods proceed in independence of studying object. In the study (Sadriev and Gali, 2014) it was noted that similar approach significantly reduces applicability of the majority of the companies competitiveness assessment methods in the Russian reality. For example, the widespread methods of the competitiveness assessment proceed from the message that the companies work in the conditions of the competition in uniform economic and legal space in which uniform or at least similar market “Rules of however, the domestic companies are compelled to function in the environment for which it is peculiar: The local driving forces having non-market character; underdeveloped institutes and practically no conditions for the healthy competition formation. Therefore, in the Russian economy often forces that have non-market character define the companies’ development.” Therefore, Sadriev and Gali offered the companies competitiveness assessment method constructed on the analysis of wider range of the factors that determine the business specifics in the Russian reality. The method distinctive feature is to bind to the environment in which the estimated subject of the market relations operates. In turn, the environment is made up of economic, constitutional and above-constitutional rules described in formal or informal institutes. The authors argue that the competitiveness is determined by the compliance of the company activity to the institutional medium (the basic “Rules of the game”), established in the industry (sectors), which contains the company main business interests and the company basic capital, and the ability to react quickly and appropriately to changes in the medium. The company compliance to the institutional medium requirements is defined by the existence of the specific competences and resources allowing the company to execute all data set of requirements. Therefore, the company competitiveness assessment can be carried out by comparison of the factors causing success of the company in this business medium, to competences and resources, available to the company. More detailed description of the companies’ competitiveness assessment method, taking into account compliance to the medium, is provided in these authors study (Sadriev and Gali, 2014). The key moment of the offered approach is the assumption that any subject of the market relations acts in a certain medium where is affected by the various forces. For example, Porter identifies five dynamic in character competition forces: Competition between the existing competitors,

the threat of new competitors, and the threat of substitute products, the suppliers’ market power, and the consumers’ market power. The article authors argue that the Russian business medium a significant impact on the company have the non-market forces, eventually leading to the competition distortion. The result of the proposed approach is the allocation of such a phenomenon as the competition distortion and its separate study.

### 3. RESULTS

Under the competition distortion, we understand the phenomenon, when “The game rules” are formed or changed in favor of the certain market entities at the expense of others. This competition distortion can manifest itself in the form of the competitive fight distortion, the structure and market conditions distortion, the distortion driving force of the economic development. We believe the most serious in consequences and complex in respect of the analysis, the distortion type is the competition distortion as the main driving force of the economic development. We suggest the following approach to the study of this competition distortion type. Based on the formulated in the study (Sadriev and Gali, 2014) proposal, to consider the competitive medium as the set of economic, constitutional and above-constitutional rules described in formal or informal institutes, we conclude that in order to study the competition distortion as the main driving force of the economic development, the problem should be viewed in three dimensions: The economy - the economic rules distortion, the government - the constitutional rules distortion, the society - the above-constitutional rules distortion.

The competition distortion problem has long attracted the attention of scientists from different countries, but it is most often studied its some aspects. For example, to determine the effectiveness of the country’s competition policy and law enforcement practice in the field of the competition protection, in particular assessing the impact of the provisions and regulations on the competition extent developed by the Organization for Economic Cooperation and Development (OECD) “Tools for assessing the impact on competition” is used in markets. The Toolkit provides a general method to identify unnecessary restrictions and development of alternative, less restrictive measures, which, however, reach the goals set by the state. One of the Toolkit key elements is the questions checklist to assess the impact on competition, which allows to identify laws and regulations that have the potential to unnecessarily restrict competition. This analysis allows us to concentrate the limited resources of the state bodies in the areas where the impact assessment on the competition is needed first (Competition Assessment Toolkit, 2011).

In addition, the corruption influence researches on the country business medium gained distribution. In particular, the World Bank carried out the analysis of how corruption at relationship of business with the state changes in the countries of Europe and Central Asia (ECA) with the transitional economy, and what factors can have impact on these tendencies. Results of the schemes and corruption trends study in the transition countries, published in a series of reports: “Anticorruption in Transition: A Contribution to the Policy Debate.” (World Bank, 2000), “Anticorruption in

Transition 2: Corruption in Enterprise-State Interactions in Europe and Central Asia 1999-2002” (World Bank, 2004), “Anticorruption in Transition 3: Who is Succeeding... and Why?” (World Bank, 2006). All three reports were based on the “Characteristics of business medium and enterprise” business surveys (BEEPS), conducted jointly with the EBRD and the World Bank in various countries.

We suggest to consider the competition distortion as a complex multidimensional phenomenon. The author’s approach is based on the selection of three types of the competition distortion - the competitive fight distortion, the structure and market conditions distortion, the distortion of the economic development driving forces - that should be considered in their interrelation. To obtain the objective picture of the competition distortion in the analysis it is offered to be guided by the quantitative data from international and national studies considering various aspects of this problem. Namely to the international indexes of national competitiveness and quality of the enterprise medium, to the research of the competition condition and the competitive medium which is carried out by the Russian Government Analytical Centre, and also The Rule of Law Index presented by the international non-governmental organization the World Justice Project. In particular, we use the following the most authoritative ratings of national competitiveness now: The Global Competitiveness Ranking of the World Economic Forum (Davos, Switzerland); Rating of the international competitiveness of the International Institute of Management Development (Lausanne, Switzerland); Rating of “Business development condition” of the World Bank Group. The choice of these indexes as the information base is caused by the following factors: In them, the set of the parameters characterizing a wide range of problems on the interesting subject is considered; researches are annual and allow to define competition distortion tendencies. From these ratings, we will define the following quantitative indexes, characterizing the competition distortion: The competitive fight distortion - the competitive fight nature, forces operating in the market; the market structure and conditions distortion - the competitors number in the market and the tendency of its change, the state regulation existence and quality, character and extent of the authorities and large companies influence; the economic development distortion shown in the economic and constitutional rules distortion - the economic development indicators of the market, the state institutes quality. For the analysis of above- constitutional rules distortions, i.e., distortions in society, the quantitative data mentioned in international and domestic researches are not suitable.

Based on the analysis of the Russian business medium and its formulated features were highlighted the main features of the competition distortions. Table 1 shows the competition distortion types as they occur in the business medium of the Russian companies and public quantitative indicators international rankings and studies of the Russian Government Analytical Centre can be expressed. Details about the competition distortion various forms is written in the study of these authors (Sadriev and Mullakhmetov, 2015).

The number and diversity of the competition distortion manifestations in the Russian business medium points to the

possibility of existence of the deep problems affecting the foundations of economic, state and public Russian models. Here is what the former Minister of Economics of the Russian Federation, scientific director of the National Research University “Higher school of economics” Yevgeny Yasin, about today’s situation in the country: “This is not a cyclical crisis, but a crisis that requires a policy change, then persistent, and at the same time moderate carrying out a new course” (Yasin, 2015).

## 4. DISCUSSION

Now there is no uniform interpretation of the term “Competition distortion.” Here are the examples of several close definitions.

### 4.1. Unfair Competition

According to the paragraph 9 of the article 4 of the Law N 135-FL “About the competition protection,” the unfair competition is any actions of the economic entities (group of persons), which are directed on obtaining advantages at implementation of the business activity, contradict the Russian Federation legislation, the business conduct customs, the respectability requirements, rationality and justice and caused or can cause losses to other economic entities - competitors either did or can do harm to their business reputation (The Federal Law Dated 26.07.2006 No. 135-FL, 2006).

### 4.2. Competition Restrictions

Here is how this term is understood in the Toolkit to the developed OECD “Tools for the competition influence assessment.” The competition restrictions is the restriction of the entrance on the market, the prices, output volume or use of these or those production methods (Competition Assessment Toolkit, 2011).

### 4.3. Administrative Corruption and “Seizure of the State”

These concepts were entered into ACT1 and were discussed further in ACT2 of a series of reports of the World Bank “Fight against corruption in a transition period.” Administrative corruption belongs to intended entering of distortions into process of the ordered performance of the existing laws, rules and the regulating provisions for the purpose of granting advantages to both state, and non-state “Characters” because of illegal and opaque ensuring personal benefits to government officials. The discretionary law of government officials on granting selective privileges and the priority right for use of the state services or for discrimination application of rules and resolutions is the main reason for this form of corruption. The state seizure is defined as the action of individuals, groups or firms in the state and private sectors for the purpose of rendering influence on formation for the own benefit sake of laws, resolutions and decrees, and other forms of the government policy (i.e. the game basic rules) by means of illegal and opaque granting personal benefits to government officials. There are many various forms of occupation of the state. However, all forms of occupation of the state are directed on obtaining the income from the last from a small circle of people, firms or branches by means of distortion of the main legal and regulating structures that conducts to huge potential losses of society in general. Definition of the state seizure used in reports is

**Table 1: The competition distortion signs**

The competition distortion type	In what it appears	In what indicators it is expressed quantitatively	Source
1 The competitive fight distortion	2 The competitive fight nature, forces acting on the market	3 A high proportion of companies that are feeling the pressure from a dominant market participant A high proportion of companies marking protectionism from the territorial and branch management Irregular payments and bribes	4 The Russian Government Analytical Centre Research (2014; 2015)
The market structure and conditions distortion	The competitors number in the market and its change trends	Reducing the number of competitors, including foreign ones  Low competition in the market	The Global Competitiveness Report (2015) The Russian Government Analytical Centre Research (2014; 2015) The Global Competitiveness Report (2015)
	The state regulation quality	Low effectiveness of the anti-monopoly policy The trade barriers prevalence A large burden of the government regulation	The Global Competitiveness Report (2015)
The distortion of the economic development driving forces	The nature and the influence extent of the governments and large companies	A high proportion of companies that are feeling the pressure from a dominant market participant A high proportion of companies marking protectionism from the territorial and branch management Weak restriction of the government institutes powers	The Russian Government Analytical Centre Research (2014; 2015) Rule of Law Index (2015)
	The economic rules distortion	The weak international trade indexes The weak financial market development Low efficiency of the goods and services market The poor state of the economy and the business medium Low competitiveness of companies and competition on the market	Doing Business (2015) The Global Competitiveness Report (2015) The IMD World Competitiveness Yearbook (2015) The Global Competitiveness Report (2015)
The distortion of the economic development driving forces	The constitutional rules distortion	Low efficiency of the state institutions  Low government effectiveness	The Global Competitiveness Report (2015) The IMD World Competitiveness Yearbook (2015)
		The property rights weak protection The lack of the judicial independence Low efficiency of the legal system to resolve disputes The fundamental rights weak protection Weak limit of the government institutions powers	The Global Competitiveness Report (2015) Rule of Law Index (2015)

brought out of the regulation capture concept which was already strongly approved in economic literature (EBRD Transition Report, 1999; Hellman et al., 2000). It is considered that the state regulators “Are seized” when they regulate the companies and the enterprises according to private interests of adjustable structures to the detriment of state and public interests for the sake of which the mentioned bodies were created.

As state capture, so the administrative corruption can penetrate to the government different levels. The initiators of these two types of corruption can be government officials, private businesses and other non-state “Actors.” The main difference between the “State capture” and the administrative corruption is what the political

relations nature, which are the cornerstone of each corruption form. When capturing the state involved actors abuse the rules in order to obtain their own narrow advantage, which then binds the actions undertaken in the economy of its other members. Through administrative corruption, the participants are able to use individualized exceptions to these rules and apply the latest in their own interests (World Bank, 2000).

It is obvious that the concepts “Administrative corruption” and “Seizure of the state” are the closest to author’s definition of the competition distortion. The main difference of the offered approach to the competition distortion is that we consider it as set of three components: The competitive fight distortion, the

market structure and conditions distortion, the distortion of the economic development driving force. The last is in turn considered in three planes: The economy - the economic rules distortion, the state system - the constitutional rules distortion, the society - the above- constitutional rules distortion. Thus, under the term "Competition distortion" all set of the various phenomena which cornerstone the situation when one of the competition subjects has an opportunity to change or treat the developed "Rules of the game" in own favor which can have both formal, and informal character is integrated. In a series of reports of the World Bank "Fight against corruption in a transition period" of ACT1-ACT3 only the part of the designated problems is considered. It means the competition distortion is the widest concept affecting all aspects of this phenomenon, and administrative corruption and "Occupation of the state," it is necessary to consider as one of competition distortion manifestations.

As another example of the widespread competition distortion mechanism, can be the cabinet lobby, which acts as a tool to promote effectively the company's interests and industries in power. The desk lobby assumes that all agreements are kept secret and are internal to the group of people united by common interests (Vujma, 2008). Lobbying may have different objectives including:

- The taxes increase or decrease in the industry;
- The influence on public services on a specific question;
- Carrying out new laws and decrees;
- The regulation and creation of favorable market tendencies;
- Fight against competitors, etc.

It is interesting to compare different points of view about the corruption influence on economy and society. In the second report of the World Bank ACT2 it is noted that "Seizure of the state," as a rule, causes damage to the competition as it interferes with penetration on the market of the new enterprises, and privileges are distributed between the influential enterprises. Administrative corruption threatens the rule of law, limiting possibilities of the state for application of laws and rules, and undermining confidence of the population that these laws and rules will be applied on a consecutive and fair basis. Negative impact of the "Seizure of the state" is legalized in the main "Game rules" forming and regulating market economy that brings fundamental disproportions in development of this economy. Negative impact of the administrative corruption conducts to weakening of the property rights that has serious consequences for investments, the economic growth and justice (World Bank, 2004). In this case, all forms of corruption are treated as the negative phenomena.

At the same time, the economic literature has repeatedly noted the positive aspects of the corruption existence, as the way to overcome the inefficient rules. In particular, to be told, the corruption can act as "The wheels lubrication" in overcoming inefficient bureaucratic barriers (Huntington, 1968). However, recent theoretical and empirical studies reject this thesis: If the rules can be used to extort bribes, there will inevitably be introduced more and more new rules (Tanzi and Davoodi, 1998). In addition, corruption actually means the discretionary application of the law, which reduces the efficiency of the coercion mechanism. That is, the corruption can be seen as a positive phenomenon only in the static analysis,

when the imperfection of the institutional medium is accepted as a reality - quite so it is possible to interpret the results of some empirical researches testifying that in the countries with poor quality of institutes, corruption has positive impact on economic development (Auzan, 2011).

The dean of the Faculty of Economics of Moscow State University, the member of the Economic Council under President, Professor Alexander Auzan argues that a large part of what is called corruption is an alternative system of taxation. Something is a way of withdrawal of rent, which may even make sense to legalize somehow. Something is a price to pay for following the rules, but something is a way of breaking the rules. The professor notes that the issue of corruption is a much more complex issue than is commonly believed. He gives an example of how one of the national government is trying to reduce corruption and eventually just stopped the social sectors. Most of disadvantaged countries, which have followed the advice of the International Monetary Fund to combat corruption, received extremely negative. Because corruption in restricted access countries - the important supporting structure (Auzan, 2015).

The head of the economic program of the Carnegie Moscow center Andrey Movchan adheres to the similar point of view. He claims that corruption is one of the Russian economy pillars for many years, but now this, in fact, the last institute defining rules of the game in the market, seemingly, falls. The Russian fight against corruption does more harm, than advantage. In Russia, the economic subjects have no opportunity to lean on normal system of the right and right application. However, when the legal system does not work as in Russia, something is necessary that will fasten the decaying business fabric, something that will define rules. Thus, there are market arrangements, natural to such situation. Amount of remuneration for corruption actions is established by a market way. Nevertheless, a few years ago in Russia active fight against corruption began. It began not the construction of the game rules system of replacing corruption, and not the regulation reduction that there were less occasions to ask bribes, and attack to small corrupt officials which significantly increased risks of corruption actions. If earlier corruption was in most cases limited to assignments, now officials through figureheads enter business, often under the threat of criminal prosecution simply taking away it from the executive. According to Andrey Movchan return to openly corruption state will mean renewal of the movement to the market. Subsequently, if in the country, there is a slow, but consecutive democratization, and the market becomes a strong gain, corruption theoretically regenerates in the arrangement of elite on establishment of rigid and effective system of right application. At some point, it becomes more favorable to them to use the right, than the power vertical risks (Movchan, 2015).

It should be noted that the presence of the problems mentioned by Andrei Movchan recognized at the highest level of the Russian leadership. So, in the annual message to the Federal Assembly in 2014, the Russian President Putin spoke about the need to remove restrictions from business, its disposal of persuasive supervision and control, need of the stable legislation and predictable rules (Putin, 2014). In 2015, in his message, Putin said bluntly that

corruption is an obstacle for the development of Russia. In the Message of the President, it is also noted that the entrepreneurs see no qualitative progress in the activities of control and supervisory agencies, a whole army of inspectors continue to work in good faith hinders business. As an illustration, said Vladimir Putin cited figures that about 80% of the entrepreneurs, which were criminal cases, completely or partially lost business. According to him, they were pressed, bled and released, and it is the direct destruction of the business climate (Putin, 2015).

We see some divergence with the conclusions given in the corruption researches of the World Bank. In fact, both Auzan and Movchanov, speaking about corruption as about one of the major “Game conditions,” which developed in the Russian business medium, allocate this phenomenon as alternative to the operating institutes, characteristic for the constitutional state. Simple destruction of “The game conditions” based on the system corruption without forming of the effective system of the legislation and right application is fraught with serious negative consequences.

There are also different points of view on the corruption emergence reasons. In the second report of the World Bank ACT2, it is noted that opportunities for the “Seizure of the state” depend on how far the development of the state policy and legislative processes are characterized by the competition, broad participation and transparency. This form of corruption prospers when economic influence is characterized by the high extent of concentration, mechanisms of upholding of collective interests beyond the scope of the enterprise are insufficiently developed and therefore the market of political influence is monopolized by the most influential enterprises. Administrative corruption is generated by possibilities of public servants at own discretion and selectively to provide privileges, to normalize rendering public services and to allow discrimination at application of rules and instructions. Opportunities for the “Seizure of the state” depend on political influence, and administrative corruption - on the bureaucrats’ action freedom (World Bank, 2004).

We consider that the competition distortion reasons, which in many ways is shown in the form of various forms of corruption, first, are caused by the feature of hierarchical systems, which companies and the state treat. In particular, the inherent problem for them, “The principal - the agent.”

The “Principal-agent” problem is that the agent, if it is possible, prefers to act in own interests, but not in the principal interests. Any hierarchy faces this problem in view of the fact that: (a) The chief (principal) possesses resources, which he gives to the subordinated (agent) for the specific objectives solution; (b) the subordinate, in turn, possesses fuller information on a problem and ways of its decision. There is a possibility of the opportunistic behavior connected with distortion of information transferred by the agent to the principal and the use of its resources for extraction of the own benefit (Auzan, 2011).

In the government institutions the “Principal - agent” problem is one of the main ones. Within the government institutions the

“Principal - agent” problem arises at the different levels. The simplest scheme of manifestation of the agency problem in the state hierarchy looks as follows. Agents of the state are the rules guarantors, which are established by the Supreme governor. For the coercion functions realization to execution of rules officials are allocated with special powers of authority - a resource, which they can use for personal enrichment, distorting information, transferred to the principal. Growth of officialdom, corruption, and excessive regulation of economy - all these phenomena are explained by the agency problem existence. In this case, the principal, whose rent is eroded by agents, is compelled to spend resources for control of incentives of government officials (Auzan, 2011).

Another fundamental reason for the competition distortion spread according to the authors is the absence or inefficiency of restrictive mechanism. Obviously, in the hierarchical structures in the event of principal and agent relationship is very likely opportunistic behavior from the performer and require additional expenses for its prevention and suppression. With the growth of hierarchy and growing number of people, for whom it is necessary to observe the activities, respectively, monitoring costs are rising (Auzan, 2011).

The effective tool to combat the competition distortion, the corruption various manifestations, and on the different government levels could be the subsystem in the management control system. Based on the systematic approach, to create the management system that is adequate to the requirements, it is necessary to change both the subsystem and the qualitative and quantitative characteristics of the constituent subsystems and components. It is necessary to proceed from the fact that the result is determined by a combination of factors (combination of subsystems, i.e., the control systems structure) and the nature of their interaction (i.e. management processes quality). Today, the leading Russian companies instead of traditional control systems introduced the concept of controlling, which is the result of the integration of different types of management and is understood in general terms as the information provision aimed at corporate management results (Mullakhmetov, 2015).

Today the researchers of management and control problems (for example, Daft, Pearce and Robinson) allocate revolutionary change of the business functioning medium as the major factor defining management development (Pearce and Robinson, 2013; Daft, 2009). The traditional management assuming efforts on ensuring the organization activity in rigidly set framework of parameters of their activity does not provide any more achievement of the objectives because established parameters owing to continuous changes of factors of the medium do not coincide behavior model of the control system providing effective management (Mullakhmetov et al., 2014).

The negative influence of the inefficient control on the competition is confirmed also by the research results of the state control organization of the small business support programs in the Republic of Tatarstan Russian Federation (Krotkova, 2014).

One more factor, according to the authors, forming the ground for the distortion competition, is observed as at the corporations’

level, so at the public and municipal administration the decreasing extent of the management competence and responsibility at the movement up the command chain.

## 5. CONCLUSION

The study found that in the Russian business medium on the company have a significant impact the non-market forces, eventually leading to the competition distortion. Under the competition distortion is understood a phenomenon, when the “Rules of the game” are formed or changed existing rules in favor of certain market entities at the expense of others.

The closest to author’s understanding of the competition distortion are the concepts “Administrative corruption” and “Seizure of the state,” defined and discussed in the reports ACT1-ACT3 of the World Bank “Fight against corruption in a transition period.” The main difference of the offered approach to the competition distortion is that we consider it as set of three components: The competitive fight distortion, the market structure and conditions distortion, the distortion of the economic development driving forces. The last in turn is considered in three planes: The economy - the economic rules distortion, the state - the constitutional rules distortion, the society - the above- constitutional rules distortion. Thus, under the term “Competition distortion” all set of the various phenomena which cornerstone the situation when one of the competition subjects has an opportunity to change or treat the developed “Rules of the game” in own favor which can have both formal, and informal character is integrated. In reports of the World Bank, only the part of the designated problems is considered. Therefore, the competition distortion is the widest concept affecting all aspects of this phenomenon.

A large number of various manifestations of the competition distortions in the Russian business medium that points to the possibility of existence of the deep problems affecting the foundations of economic, state and public models of Russia, was revealed.

The competition distortion reasons first are caused by the hierarchical systems feature, which firms and the state treat. In particular, the “Principal-agent” problem, peculiar for them, and feature of the existing mechanisms of the institutes change. The following main aspects defining the competitive medium distortion in Russia were allocated: The economic and political power concentration; the transaction localizations; the business concentration, rapid development of business groups; the generalized and institutional trust low level, and the imposed political and economic imperious relations; lack of uniform economic and legal space, heterogeneity of the Russian economy; absolute power of managers, which welfare to a bowl of all is defined not by effective functioning of the company or restructuring, and a semi-legal conclusion of assets; emergence of alternative formal institutes, system corruption. Another fundamental reason for the competition distortion spread according to the authors is the absence or inefficiency of the restrictive mechanism.

The recognition of the competition distortion problem existence, its scale and gravity of impact on economy, and broader understanding and integrated approach to this phenomenon allows to allocate a number of the new perspective scientific directions. Researches on the subject “Marketing in the conditions of the competition distortion,” “Company management in the conditions of the competition distortion,” “Branch and regional policy in the conditions of the competition distortion” can become such directions etc.

In the study, a number of problems demanding further more profound studying were noted:

- The conditions of emergence and development of all three forms of the competition distortion, interrelation of factors and their influence extent;
- The restrictive mechanisms system interfering formation and distribution of the competition distortion;
- The analysis methodology of the above-constitutional rules distortions, i.e. the distortions in society which are negatively influence the Russian business medium development.

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