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Business Victimization and Organized Crime

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Organized crime frequently targets businesses in order to penetrate and overturn the existing social structure in Ukraine. At the same time, because of instabilities in the governmental structures, businessmen doubt the efficacy of state officials and increasingly turn to criminal groups for support and protection. Based on our research, we can conclude that both criminality and business victimization are deviant forms of adaptation resulting from changes in the social structure.¹ In general, both crime and victimization serve as a sort of non-institutionalized protest against existing social relationships, and are a reaction to those relationships. They respond to failures in social consciousness, and in legislation intended to redistribute property and social status among various social groups. Related to this is the connection and indeed overlap between organized crime and business practices in Ukraine. Because of this overlap, the victimization of business is not only an indicator but also a product of organized crime.²

Business, entrepreneurial activity directed to earning a profit, is organized for the purpose of the production and sale of goods and services. Ukrainian law guarantees freedom of competition, immunity of assets, and the protection of the businessman's right of ownership.³ Ukrainian businesses are, however, continually threatened by the "regulation" of the economy, an imperfect tax system, financial and political instability and official corruption.

Ukrainian businesses are entangled in or impeded by criminal activity as the result of numerous circumstances. First, governmental economic and social reforms have been enacted prematurely, that

is, before a readiness to support and abide by the reforms has been developed. Then, there is a widespread lack of morals resulting from the erosion of values in the society – a development that has plagued all the newly independent states following the collapse of the Soviet Union. At the same time there is, again widespread, support for the criminalization of capital (that is support for the maintenance of a shadow economy). Legitimate business, on the other hand, generally lacks support. Oligarchs (powerful former government officials and shady businessmen) seem to be immune from government investigation and prosecution, permitting them to monopolize the market. Finally, there is a profound distrust of law enforcement accompanying a general loss of governmental control over economic abuses and crimes.⁴ One of the consequences of the antipathy is that approximately one out of every two businesses avoids paying taxes.

Gaps in old criminal legislation, along with deficiencies in law enforcement have allowed most economic crimes to remain hidden. Further, the state's failure to effectively regulate or control business relationships has increased the numbers of businessmen operating in the shadow economy. This shadow economy has spurred and necessitated the creation of a "parallel economy," a "parallel banking system" and "parallel justice." Experts estimate that 40 percent of Ukraine's annual gross domestic product is generated by the shadow economy, usually involving currency conversion operations that are controlled by criminals.

During the early development of the post-Soviet Ukrainian state, many organized "bandit" and racketeering groups were able to form legal businesses as the result of the merger between criminal capital and the state power structures. The two are now intertwined and will become increasingly interdependent on each other - - as both state and criminal sources seek to enrich themselves at the expense of the Ukrainian businesses that are attempting to operate above board. In fact, modern

businessmen realize that it is practically impossible to run their business in a social vacuum, and know in one way or another they will probably come into contact with representatives of organized crime.

Thus, many businesses become participants in criminal activity, further feeding the demand and unwittingly becoming victims. Business has evolved into a “cash cow” for organized crime. It has been estimated that one out of three business persons is willing to turn to influential people or to the services of a hired assassin from an organized criminal group if necessary.⁵

Businesses with a smaller number of managers, who have no prior involvement in “black” deals, and who keep a detailed accounting of funds and property, are the least likely to encounter threats from organized crime. Researchers in this study polled 50 professionals, and found that the majority of those involved in trade markets do not experience threats from organized criminal groups.

According to the 2001 Ukrainian Criminal Code, first time business offenders may avoid other penalties under two conditions: one, they pay the taxes and duties owed to the state prior to the institution of proceedings; and two, they agree to compensate the state for any losses suffered as a result of the criminal activity. The current trend is to create a special pool of legal defenders for victimized businessmen, and to prevent victimization by using various crime prevention strategies.⁶

Organized Crime and Business: Symbiosis or Struggle?

Organized criminal groups, as a subset of social organizations that perform certain defined functions in society, have arisen from the system of relations that was directed at the illegal acquisition of high profits over time. Organized crime businesses or “quasi-businesses” satisfy the high demand for their products and services. They are able to expand their organized criminal activity even in states with relatively high levels of social control. In those countries with less capability for resistance, they can literally crush the society. Ironically, organized criminal groups may actually stimulate business despite

their use of “forced cooperation,” because the criminal groups, when they are acting as the owners of a business, want the business to make money. Organized crime is legitimized via business, and a business, when it is an organized crime medium, is more profitable than a business that works within the confines of the law. The symbiosis of business victimization and organized crime will continue to thrive as long as opportunities for quick and easy prosperity are more available and lucrative through illegal channels rather than legal ones.

In the interaction of business and organized crime, we confront, at minimum, three types of consequences: 1) the confrontation of organized criminal groups and businessmen resulting from criminal threats; 2) the coalescence of criminals and businessmen in certain businesses; and 3) the amalgamation of businessmen, organized criminals and corrupt law enforcement officials. The greatest risks to legitimate businesses from organized crime are the threats to business management, to employees, to information both within and outside of the business, to the basic assets of the business, and to marketing, financial, and advertising security.

Crime becomes culturally entrenched through the formation and adoption of common criminal sentiments, standards, customs, and mechanisms via group pressure over time. Organized crime and the victimization of business are both forms of socially deviant behavior. They are interdependent and serve to perpetuate one another.⁷

The Victimization of Business: Results from the research

Research Methodology

Researchers in our study of business victimization polled businessmen in the Black Sea port city of Odessa in 1999, about their connections with organized crime. The telephone survey involved a random sample of 500 businessmen, and personal survey consisted of a convenience sample of 100

businessmen who were involved in the Odessa clothing markets.

Basic Characteristics

In 1999, Kulik (1999) found that there were 1,166 criminal groups comprised of 4,674 members in Ukraine. They committed 9,307 economic crimes in 1999. Kulik found that the increasing privatization of state property, and the establishment of corrupt connections in order to secure access to quotas and licenses stimulated economic crime. According to our survey, only four percent of businessmen had experienced threats of violence in connection with carrying out their business activities, and only one percent reported receiving threats to destroy their property.

A 1999 public survey indicated that the businesses and institutions perceived to be most corrupt (listed from most to least corrupt) were: the state automobile inspectorate, medical establishments, the police, colleges, state ministries, local governments, customs houses, tax inspection, the Supreme Soviet, the courts, the public prosecutor, the presidential administration, and the privatization agencies.⁸

Only three percent of businessmen surveyed thought that criminal groups interfered with business in the region where they worked, and more than three-quarters were reasonably unconcerned that businesses in their region were subject to crime. In order to defend themselves from the possibility of blackmail, however, 27 percent of these businessmen had contracted with the State Protection Service (for security) and 21 percent had contracted with a private protection agency. Further, 25 percent had created their own security service; 27 percent had installed security gates on the premises; and, 43 percent had installed an intrusion alarm. From the data gathered in this study, we can conclude that more than half of businessmen, overall, are in some way victims of organized crime.

The main types of reported criminal victimization were hooliganism (4%), blackmail and extortion (5%), bodily injury (0.2%), theft of personal property (12%), and fraud (9%). Almost 40

percent of those surveyed indicated they had been victims of crimes at least once during the indicated period, but only one in five of those victimized went to law enforcement agencies for help. The number of victims increases to 60 percent when including just those businessmen involved in specialized trades and domestic services.

Some 60 percent of the businessmen surveyed admitted that they had, on at least one occasion, bribed state workers. Despite this, nearly two-thirds of businessmen surveyed indicated they would like to see lawfulness in the country improved in order to guarantee a stable salary and relatively high incomes for state workers. The majority of businessmen also believed that government officials refused to arrest people responsible for committing economic crimes, even in cases when they knew exactly who to arrest.

Conclusions

Businessmen victimized by organized crime are chosen based upon their economic condition and their involvement in activities of interest to organized criminal groups. The level of victimization is determined not only by the level of involvement of organized crime, but also by the victims' perceptions of how business should be operated. The responses of businessmen surveyed for this research reflect their association of business victimization with organized crime. Those surveyed, however, seriously underestimated the level of victimization of the population as a whole.

Protection rackets are run by law enforcement and a virtual garden variety of extortionists, as well as by more sophisticated criminal organizations. Government officials are engaged in a power struggle with organized criminals – with both seeking to victimize businessmen. The “parallel” banking, currency exchange, and tax evasion systems available to them, in addition to the protection they receive from both law enforcement agencies and the State aid organized criminals. The symbiosis between

organized crime and businesses in Ukraine will continue to exist as long as the criminal opportunities for conducting business are more attractive than the legal ones.

Further research on the dynamics and characteristics which increase the potential for victimization is clearly needed to develop systems to monitor the practice and identify methods that can help prevent the further victimization of businesses in Ukraine.

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