

Due Diligence in Russia: The Value of Experienced Analysis in the Absence of Reliable Sources of Information



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The Russian media would appear to be trying to compensate for the country's reputation for opacity, now publishing voluminous economic, political, and social information. However, the legacy of many decades of tightly controlled media under the Soviet system is a virtual media free-for-all in which credibility and general quality have taken a back seat to quantity and sometimes, loosely orchestrated information campaigns. While researchers may encounter ample media reports about the reputation of a company or individual, it is essential that consideration be given to the reliability of the source. Media corporations in Russia are by no means immune to the influence of special interests, as most are owned directly by the state or by powerful individuals with vast business holdings and a direct interest in how information is reported in regard to their private interests.

So-called "yellow" media sources are those that are not considered credible due to the publication's reputation for publishing slanderous stories. The reporters or editors of such publications may have received payoffs from corporate interests or local politicians in order to receive favorable coverage or to influence negative reports about their opponents. With the increased popularity of Internet media in Russia, such "yellow" news sources have abounded. One popular muckraking site, Kompromat.ru, publishes often low-quality and sensational stories by freelance writers next to adverse media reports taken from more mainstream publications in order to lend weight to attempts to discredit politicians and members of the business elite.

One way to gain a better understanding of a subject's reputation is to analyze the discrepancy between how information is reported in the Russian language press and how it is then portrayed in translation for the international audience. Although often published by the same media outlets, the emphasis or color given to any specific adverse incident may vary between the Russian and English coverage of events. For example, a recent Kroll investigation revealed a limited number of Russian language articles reporting that the subject individual, who was serving as the bankruptcy administrator for a metals company, had been criminally charged with running the company into the ground so that his corporate backers could easily gain control of the lucrative business. Similar reports, however, were not found in the international English-language Russian press. Rather, the subject individual was described more as a pawn in a major corporate ownership battle that had wider political repercussions. While the criminal investigation of the subject individual was considered noteworthy information, its significance in the overall due diligence report was altered when presented in the full context of events.

Obtaining official corporate registration documents for Russian companies is a useful tool in understanding a company and its background. However, it is often the case that a company structure is different in the official register than the picture created by its media profile. Registered general directors are often trustee managers with a limited role in the company's strategic planning and, thus, the company's success or failure. An individual described in the media as the company's owner may not be listed in the official register due to complex ownership structures designed to conceal beneficial ownership and/or minimize risk to that individual. For example, Kroll investigations have revealed a common scheme in which the subject individual's wife or secretary is registered as the official owner.

Negative information about a subject individual and his/her company may be obscured when the subject company is a conglomerate. Due to the turbulent consolidation of Russia's metals industry, this has been found to be a noteworthy aspect of conducting due diligence on Russian industrial holding companies. Research into the background of controversial oligarchs may produce plenty of speculative reports and generalities. Research into their holding companies, which may have been formed or renamed in the last 10 years, may also reveal generalities. However, by researching the names of entities within the holding, a significant amount of concrete information about bankruptcies, asset stripping, and intentional bankruptcy often emerges. A recent Kroll investigation revealed that the most noteworthy information concerning the target entity, a construction and real estate holding firm, was the bankruptcy and criminal investigation of one of its key subsidiaries, which was accused of using funds invested by private individuals for a housing complex to finish a prestigious luxury hotel project that had lost financing as a result of the international financial crisis. Such issues are particularly relevant to due diligence reporting on Russian companies, where the beneficial owner often exerts more direct control over the company's activities than may be the case in Western corporations.

Just as in any country, media research and a review of corporate records are important aspects of a public record due diligence inquiry in Russia. However, the information found through these inquiries may not provide a reliable or complete profile of a subject as similar inquiries in other countries might produce. Analysis of the located information based on familiarity with the Russian language and the complexities of conducting business in Russia is essential to any due diligence inquiry in Russia.



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