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**COLLECTIVE ACTION ABROAD:  
HOW FOREIGN INVESTORS  
ORGANIZE  
EVIDENCE FROM FOREIGN  
BUSINESS ASSOCIATIONS  
IN THE RUSSIAN FEDERATION**

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## **COLLECTIVE ACTION ABROAD: HOW FOREIGN INVESTORS ORGANIZE**

### **EVIDENCE FROM FOREIGN BUSINESS ASSOCIATIONS IN THE RUSSIAN FEDERATION<sup>2</sup>**

What role can collective action by foreign investors play in an environment characterized by incomplete institutions? We study this question by looking on foreign business associations in the Russian Federation. By interviewing 17 foreign business associations and conducting an online survey of their member firms, we find that business associations play an important welfare-enhancing role in providing a series of support and informational services. However, they do not play a significant role in lobbying the collective interests of their member firms, especially in the current political context in Russia where since the start of the Ukraine crisis the business community seems to have suffered a general loss of influence on political decision making.

Keywords: collective action; business associations; lobbying.

JEL codes: D71, D72

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## 1) Introduction

A large literature has investigated the role of collective action among firms. For a long time, this literature has focused on business associations as rent-seeking special interest groups (Olson 1965, 1982). By lobbying for preferential policies, so the argument goes, these groups advance their own benefit, but often harm the greater good as business resources are used up for lobbying efforts and state resources are not distributed in an optimal way (Krueger 1974; Bhagwati 1982).

More recently, a new line of research has started to emphasize the potential positive effects that organized business can have on economic efficiency, public welfare and economic development (Doner and Schneider 2000). Especially in the development economics literature, the importance of well-functioning links and feedback mechanisms between state and business has increasingly been emphasized (Evans 1995, Maxfield and Schneider 1997, Cali et al. 2011). Business associations play an important role in this respect by aggregating business interests and providing a platform for informational exchange and networking, but also by protecting firms and entrepreneurs from predatory or corrupt state officials. They can even become a catalyst for overall institutional improvement by contributing to the transition from a limited to an open access order, as pointed out by North, Wallis and Weingast (2009, page 140 ff.) in their book on violence and social orders.

While the empirical and case-study literature on the role of *domestic* business associations is quite substantial, much less has been written about the role of business associations and collective action by *foreign* investors. However, if we consider the reasons commonly advanced why firms join a business association, foreign investors might often have an even stronger interest than their domestic competitors to join some form of collective organization. While domestic firms join a business association to lower the costs of lobbying, to gain access to networks and information or to find some sort of protection in the case of state predation, foreign investors have to struggle with a range of additional problems such as the language barrier or an insufficient understanding of local business practices, the bureaucratic and political context and the general rules of the game, all of which puts them at a disadvantage with respect to their domestic competitors. Joining a business association in the country they plan to invest in might be a way to address these problems.

Indeed, a sizable cross-country literature has shown that foreign firms often *do* exercise a substantive amount of political influence, especially in developing and transition countries (Jensen 2006; Desbordes and Vauday 2007; Li 2011). But what are

the channels and mechanisms they use to advance their interests? How do they organize, and what is the role of foreign business associations in this respect?

In this paper, we are going to study collective action by foreign investors with a focus on foreign business associations in the Russian Federation. In a first step, we will ask *why* firms organize, and how effective different types of collective action are for foreign investors. What is the added value for a foreign firm to join its national business association in a foreign country, for example the Russo-British Chamber of Commerce for a firm that wants to invest in Russia but has its headquarters in the UK? Are national business associations the most important mechanism or only one among many that foreign investors use to advance their interests? To answer these questions we focus on three particular sets of services that business associations typically provide for their members, namely assistance for individual firms in the case of administrative and other kinds of problems in the host country, provision of informational services and access to networks, and the role business associations play in lobbying for and advancing the collective interests of their members.

In a second part, we will then focus on the economic and institutional outcomes of collective action abroad. With respect to the academic debate on the positive and negative effects of business lobbying, we will try to see if collective action by foreign investors in Russia can rather be characterized as attempts by narrow interest groups to advance their individual objectives, or if through some kind of economic and institutional spillovers the overall effects are positive for society at large. Do we observe a dialogue between domestic institutions at the regional or national level and foreign business associations that could assume the form of a catalyst for institutional change, such as described for example by North, Wallis and Weingast (2009)? Are foreign investors able to influence political or legislative decision-making in their host country, and if yes, what kind of influence is exercised? Finally, does the activity of business associations facilitate potentially positive economic outcomes such as the transfer of technology or management practices, or other kinds of spillovers to domestic firms?

For a number of reasons, Russia is a particularly well-suited context to study these questions. An emerging economy with still a lot of potential for investors despite recent geopolitical events, Russia is also characterized by a set of incomplete and often contradictory institutions that make it difficult for first-time investors to navigate the country's economy and administrative system. Foreign business associations can thus potentially play an important role in supporting firms that plan to or have started to invest in Russia. In addition, the heterogeneity of Russia's more

than 80 regions provides us with a lot of regional variation while overall characteristics such as language or national legislation are kept constant, which permits us to avoid the pitfalls often encountered by cross-country studies.

For our study, we conducted interviews with leading representatives of 17 foreign business associations based in Moscow, as well as with a number of high ranking foreign and Russian stakeholders that are actively involved in the dialogue between the Russian government, Russian business and foreign investors. The interviews were conducted between late 2014 and September 2015. Our interviews were complemented by an online survey of firms organized in foreign business associations, which was carried out during spring 2015. Although we had initially planned this study before the onset of the Ukraine crisis, the difficulties resulting for foreign firms in Russia from the current political climate and international sanctions have added an additional element of interest to our paper, as we are now also in a position to investigate to what extent foreign business associations can help foreign investors to weather the storm.

The paper is organized as follows. Section 2 reviews the literature on collective action among firms, both domestic and foreign, with a special focus on Russia. Section 3 presents our methodology and summary statistics of the data we collected, and provides an overview of how foreign business associations are organized in the Russian Federation. Section 4 reviews how well these associations do in helping their members to solve problems, in providing information and access to networks, and in lobbying for the collective interest of their member firms. Section 5 revisits the debate about the positive and negative welfare effects of collective action by foreign investors in light of our findings, and section 6 concludes.

## **2) Literature Review**

Why do firms organize? For some time, a debate has been ongoing that opposes the potentially harmful outcomes from business lobbying to the positive effects of collective action by firms and entrepreneurs. In *The Rise and Decline of Nations* (1982), Mancur Olson advanced the argument that the less encompassing are groups, the more likely they are to lobby for the kind of rents and special benefits that are profitable to them but harmful to the rest of society. While Olson has focused on the Western world and Japan in his study, Pyle and Solanko (2013) have found empirical evidence supporting Olson's hypothesis for a former socialist country, by surveying managers of Russian regional business lobbies and Russian industrial enterprises.

This line of research would suggest that those business associations representing a relatively narrow range of interests have a higher tendency to engage in rent-seeking activities and in attempts to limit market competition than more encompassing associations.

On the other hand, in particular in contexts with incomplete markets and institutions collective action by businesses can also play a positive role, in providing the kind of knowledge and services that formal institutions and the market are not able to provide. Both Duvanova (2007, 2011, 2013) and Pyle (2006) have found evidence that overall the kind of business organizations existing in contemporary Russia are primarily of this second type, while Peng (2001) argues that the promotion of networking by business associations in a number of transition economies has made important contributions to wealth creation in these countries. A growing literature looking at China also identified collective action by both state-owned and private businesses as playing an important role in enhancing the effectiveness of state-business links, for example by providing feedback mechanisms to improve the quality of economic laws and regulations (Kennedy 2005; Zhang 2007; Deng and Kennedy 2010).

It thus seems that while less encompassing groups are more likely to lobby for special interests irrespective of the institutional context, collective action by businesses *per se* might rather play a positive role in environments characterized by incomplete institutions. For example, a number of studies have found that collective action helps businesses to defend themselves against attacks by predatory and corrupt state agencies (Pyle 2011; Markus 2012, 2015; Yakovlev et al. 2014, Kazun 2015). Indeed, Pyle (2011) shows how business collective action can serve as a substitute for protection by political institutions in those Russian regions that are less politically competitive. Especially in contexts like Russia that to this date are characterized by a high level of violent and predatory pressure against businessmen both at the hands of criminal groups and various state actors (Belokurova 2014; Rochlitz 2014; Markus 2015), the possibility to appeal to a business organization for protection might be quite valuable. One example is the organization “Business against Corruption” (BaC), which was set up by the Russian business organization “Delovaya Rossiya” in 2011 to defend businesses in Russia against the activity of corporate raiders and predatory state agencies (Yakovlev et al. 2014, Kazun 2015). Although the amount of cases where BaC was able to successfully defend a business under attack has remained limited to date, the organization remains an example of a possible catalyst for larger institutional change.

Another service business associations can provide to their members is the provision of information and access to networks. Efficient networks with non-market stakeholders can help foreign firms to obtain relevant information, accelerate administrative decision-making and reduce political risks (Peng 2001; Holtbruegge and Puck 2009). Business associations can play an important role in this respect as a platform for information exchange and networking. This can be especially important for foreign investors that just started investing, as they might initially still lack the personal networks and connections crucial for successful business activity in contexts characterized by incomplete institutions (Batjargal 2007; Heikkila and Salmi 2015).

Perhaps the most frequent activity to be associated with business associations is lobbying. From the literature on lobbying, we know that certain firms are more likely to engage in lobbying activities and have higher bargaining power than others. Looking at a large sample of 20000 firms in developing and transition countries, Weymouth (2012) finds that lobbying and policy influence increase with a firm's size and market power. Similarly, state-owned firms seem likely to have better access to public officials than privately owned firms, and firms with many employees seem to be able to increase their bargaining power vis-à-vis the state by trading favourable legislation for support at the ballot box or keeping people employed (Frye 2002; Aisbett and McAusland 2013; Frye et al. 2014). Firms in the tradables sector and those that export are also found to exercise stronger political influence (Yasar et al 2011; Yasar 2013), as are firms that observe that their competitors have influence on policy (Kanol 2015), whereas industry concentration does not seem to play a role (Barber et al. 2014).

While differences in bargaining power can be an important determinant why firms choose to lobby through business associations instead of engaging in direct lobbying, this decision seems also to be influenced by the institutional environment. For instance, in Russian regions with higher levels of political competition, firms are found to be more likely to lobby through business associations than to engage in direct lobbying (Pyle 2011, Govorun et al. 2013).

The institutional context seems also to influence the general effectiveness of lobbying, although here the results are less clear cut. While Choi et al. (2014) find that lobbying seems to be less effective in countries with higher levels of political competition, Weymouth (2012) identifies that firms surveyed in the World Bank's Enterprise Survey report greater policy influence in democracies than in non-democracies. Concerning foreign investors and multinational companies (MNCs), Li (2011) finds them to be less influential over public policy in democracies than in autocracies,

while at the domestic level MNCs are found to have more bargaining power than purely domestically oriented host firms. The often powerful role played by foreign investors, especially in contexts with relatively weak host governments is also identified by Desbordes and Vaudo (2007), who looking at a sample of 48 developing countries find that foreign firms derive substantial fiscal and regulatory advantages from their political influence and from their ability to negotiate superior entry conditions.

While these studies mostly use cross-country data, surveys and case studies that look at lobbying and collective action by foreign investors in a single context remain relatively rare (Chen 2004, 2007 or Luo 2007 on the strategies used by MNCs in China are an exception). In this paper, we will therefore focus on collective action by foreign investors in a single country characterized by incomplete institutions, the Russian Federation. We will study to what extent foreign business associations provide assistance in the case of problems with state officials and domestic competitors, what role they play in providing informational services and access to networks, and to what extent these associations are used by foreign investors as a way to coordinate lobbying activities. Looking at these three topics will then permit us to answer the questions asked at the beginning of this paper, i.e. to what extent collective action by foreign investors is welfare-enhancing in the context we study, and to what extent this kind of collective action might display the negative welfare effects first described by Mancur Olson (1965, 1982).

### **3) Methodology and Data**

For the purpose of this study, we conducted a series of interviews with leading representatives of 17 foreign business associations based in Moscow, as well as with a number of foreign and Russian stakeholders involved in the dialogue between the Russian government, Russian business and foreign investors<sup>3</sup>. We then also gathered

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<sup>3</sup> The interviews were conducted between late 2014 and September 2015 by the author of this article, as well as by Andrei Yakovlev (IIMS and ICSID, HSE Moscow), Nina Ershova (ICSID, HSE Moscow), Tatiana Dolgopyatova, Andrei Govorun and Denis Ivanov (IIMS, HSE Moscow).



Table 1: Business Associations – Descriptive Statistics

<b>Business Association</b>	<b>Members</b>	<b>Founded in</b>	<b>Staff (in Russia) / Budget (if available) / Funding from home country government</b>	<b>Country % share in overall Russian imports (2013)<sup>4</sup></b>
Association of European Businesses (AEB)	620	1995	40 staff / no gov. funding	42,85% (EU)
China Council for the Promotion of International Trade (CCPIT)	4000 (in Russia)	1952	8 staff / gov. funding	16,8%
Russian-German Chamber of Commerce (AHK)	848	2006	40 staff / gov. funding	11,7%
American Chamber of Commerce in Russia (AmCham)	723	1994	25 staff / \$ 5 million (2012) / no gov. funding	5,2%
Italo-Russian Chamber of Commerce (CCIR)	291	1972	20 staff / no gov. funding	4,6%
Japan Business Club (JBCM)	187	2007	no gov. funding	4,3%
Japanese Association for Trade with Russia & NIS (ROTOBO)	150	1967	gov. funding	4,3%
Franco-Russian Chamber of Commerce and Industry (CCIFR)	over 400	1997	50 staff / \$ 1.7 million / no gov. funding	4,1%
Russo-British Chamber of Commerce (RBCC)	500	1916	12 staff / \$1.25 million (2012) / no gov. funding	2,6%
Polish Business Club (PBC)	60	1999	some gov. support	2,5%
Turkish Confederation of Businessmen and Industrialists (TUSKON)	n/a	2005 (de facto since 1995)	2 staff / no gov. funding	2,3%
Finnish-Russian Chamber of Commerce (FRCC)	862	1946	\$ 3.7 million (2013) / gov. funding	1,7%
Czech-Central Asian Chamber of Commerce (CSOK)	n/a	2001	3 staff / no gov. funding	1,7%
Korean Trade-Investment Promotion Agency (KOTRA) / Korean Chamber of Commerce	80	1962	30 staff / gov. funding	1%
Indian Business Alliance (IBA)	170	1994	no gov. funding	1%
Canada Eurasia Russia Business Association (CERBA)	over 200	2004	\$ 616000 (2011) / no gov. funding	0,57%
Norwegian-Russian Chamber of Commerce (NRCC)	140	2003	7 staff / gov. funding	0,57%
Slovenian-Russian Business Club	30	2009	1 staff / gov. funding	0,4%
Russian-Israeli Business Council	60	2010	no gov. funding	0,47%

<sup>4</sup> Data Source: Russian Federal Tax Service (<http://stat.customs.ru/apex/f?p=201:7:2798029306666172>)

additional information and statistics from the website of each association. From the associations that we approached, all with the exception of the Russian-German Chamber of Commerce agreed to participate in the project<sup>5</sup>. Table 1 presents descriptive statistics for all associations contacted for the purpose of this study.

As we see from table 1, the importance of foreign business associations in Russia corresponds roughly to the importance of economic ties each country has with the Russian Federation (which we proxy by each country's imports to Russia as a percentage share of Russia's overall imports). Whereas some associations have been established during the Soviet Union (such as for example the Chinese, South Korean, Finnish or Italian association) and the Russo-British Chamber of Commerce even dates back to 1916, most associations have been established during the second half of the 1990s or during the 2000s. One important distinction between associations is the existence of support from the home country government. Some associations keep close ties and receive significant amounts of funding from their home country governments as a supplement to membership fees, especially the East-Asian associations from Japan, Korea and China, but also the German and Finnish associations. On the other hand, those associations with an Anglo-Saxon background (the US, UK and Canadian association), but also the French and the Italian association as well as the Association of European Businesses have to rely exclusively on their own sources of funding, which are mainly composed of membership fees.

After conducting the interviews with a representative of each association, we coded the information gathered for each association with respect to the association's internal organization and activity, contacts to other foreign and Russian business associations, contacts with Russian federal and regional institutions and officials, as well as with respect to personal characteristics of the respondent who gave the interview. This coded information was then used as the basis for our analysis in section 4 below.

In addition to the interview, we also asked each association for the possibility to conduct an online survey among its member firms. The survey was designed with the help of the online survey tool "Survey Monkey" ([www.surveymonkey.com](http://www.surveymonkey.com)), and included up to 40 questions (depending on the type of answers, the amount of questions varied slightly)<sup>6</sup>. Each association was asked to distribute the survey link through their mailing list among their member firms, with the request that the

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<sup>5</sup> After being contacted with an official letter, a representative of the Russian-German Chamber of Commerce replied by email and apologized on behalf of the association for not being able to participate in the study, due to time constraints.

<sup>6</sup> The complete list of questions can be obtained from the author upon request ([mrochlitz@hse.ru](mailto:mrochlitz@hse.ru)).

survey be answered only by a top-manager of the respective firm. While 12 associations agreed to send the survey link to their members, we only got a usable amount of answers for 6 associations. Table 2 presents summary statistics for these 6 associations.

As with 116 respondents the survey only resulted in a relatively small number of answers which are not statistically representative in nature, we only use it to motivate some of the questions asked in sections 4 and as an indicative source of evidence. Nevertheless, the fact that the number of replies is relatively evenly spread across sectors (table 3) and across small, medium-sized and large enterprises, of which a relatively large number either provide services or have production or R&D facilities inside Russia (table 2) makes us confident that at least as a source of indicative evidence the survey still has its use.

Table 2: Survey Results – Selected Descriptive Statistics

	Number of Replies (as % of all association members)	Investment in R&D in Russia? (% of all replies)	up to 100 employees in Russia (% of all replies)	101 to 1000 employees in Russia (% of all replies)	More than 1000 employees in Russia (% of all replies)	Production or service provision in Russia? (% of all replies)	Imports and sales in Russia? (% of all replies)
AmCham (US)	21 (3%)	19%	38%	38%	24%	62%	14%
RBCC (UK)	21 (4,2%)	16%	62%	29%	10%	57%	29%
CERBA (Canada)	24 (12%)	21%	71%	4%	12,5%	42%	25%
Polish Business Club	15 (25%)	43%	47%	20%	20%	66%	20%
IBA (India)	3 (1,8%)	50%	66%	0	33%	n/a	33%
Rotobo & JBC (Japan)	32 (9,5%)	14%	81%	12,5%	3%	22%	50%
Total / Average	116	27%	61%	17%	17%	50%	29%

Table 3: What is the main sector your firm is working in?

	USA	Canada	UK	Poland	India	Japan	Total (% of all respondents)
Manufacturing	4	4	2	5		15	29%
Financial Services	2	1	3	2		2	9%
Business Consulting	4	4	3	1		4	14%
Tourism and Hospitality	1		5				5%
Natural Resources		4	3				6%
Information Technology	1		2				3%
Agriculture	2	1					3%
Retail		1		3		1	4%
Transport	2	1	2			2	6%
n/a	5	8	1	4	3	7	24%

#### 4) Results

Why are firms joining their national business association in a foreign country? To answer this question, we first look why foreign investors come to Russia in the first place (table 4). The results from our firm survey are relatively straightforward. It seems that the possibility to access the Russian market as well as the high profitability of investments in Russia have attracted foreign firms to the country, while other factors such as low labour costs, the availability of natural resources or the regulatory environment play only a minor role.

Table 4: What do you think was the main reason for your firm to start investing in Russia? (up to 3 answers possible)

	Access to the Russian market	Low labour costs	High profitability of investments in Russia	Availabil. of natural resources	Availabil. of qualified labour	Flexible education and retraining policies	Less rigid environm. regulation than elsewhere	Less rigid labour regulation than elsewhere
USA	67%	14%	43%	5%	14%	0%	0%	0%
Canada	54%	0%	29%	12%	12%	0%	0%	0%
UK	52%	5%	38%	10%	14%	0%	0%	0%
Poland	67%	7%	47%	0%	0%	6,7%	0%	0%
India	33%	0%	33%	33%	0%	0%	0%	0%
Japan	56%	0%	22%	9%	3,1%	3,1%	0%	0%
Average	55%	4%	35%	12%	7%	2%	0%	0%

At least from the firms we surveyed it thus looks as if foreign investors mainly come to Russia to sell their goods and services to Russian customers, not to produce in Russia with the intention to then sell their products elsewhere. Indeed, only 7% of firms surveyed indicate that they produce in Russia with the intention to sell their products abroad, while 62% either import to Russia or produce in Russia with the intention to sell their goods and services in the country (table 5).

Table 5: What is the main activity of your firm in Russia?

	USA	Canada	UK	Poland	India	Japan	Total (% of all answers)
Import to Russia with sales on the Russian domestic market	3	6	6	3	1	16	35 (40%)
Production / services in Russia with sales on the domestic market	4	2	4	5		4	19 (22%)
Production / services in Russia with sales on domestic and foreign markets	8	7	6	4		2	27 (31%)
Production / services in Russia with sales on foreign markets	1	1	2	1		1	6 (7%)

The first of the three main functions of business associations that we intend to study in this paper is their role in assisting *individual* member firms with problems encountered with the Russian authorities, for example with respect to taxes, custom rules and other regulations, but also concerning problems such as corruption, violent pressure or other predatory practices by state officials, which have been identified as significant problems faced by domestic businesses in the country (see e.g. Markus 2015). Table 6 presents an overview of the main difficulties faced by the firms we surveyed during the first year they operated in Russia. Interestingly, it is primarily problems with regulation and custom clearance that were cited as the primary obstacles firms faced, while corruption remains a problem but seems less important in comparison. On the other hand, security is not mentioned as a primary concern, which is also reflected in the relatively low amounts of annual turnover spent on payments for security per year (table 7).

Table 6: What do you think were the main difficulties faced by your firm during the first year that you operated in Russia? (up to 3 answers possible)

	Regulation	Taxes	Custom clearance	Access to finance	Corruption
USA	52%	5%	5%	5%	14%
Canada	46%	25%	21%	4%	12%
UK	33%	10%	29%	0%	29%
Poland	27%	7%	27%	0%	47%
India	33%	33%	67%	0%	33%
Japan	28%	19%	28%	9%	3%
Average	37%	16%	29%	3%	23%

	Security	The language	Hiring skilled labor	Access to infrastructure	Access to land	Competition (by other firms within the sector)
USA	5%	5%	19%	19%	10%	24%
Canada	8%	17%	8%	4%	8%	12%
UK	19%	0%	33%	14%	5%	24%
Poland	0%	0%	33%	7%	7%	20%
India	33%	0%	0%	0%	0%	0%
Japan	3%	41%	6%	9%	0%	16%
Average	11%	10%	17%	9%	5%	16%

Table 7: Approximately what percentage of the firm's total annual sales was spent on payments for security in the year 2014? (as percentage of all replies)

	USA	Canada	UK	Poland	India	Japan	Average
I don't know	44%	37%	16%	27%	50%	25%	33%
Our firm did not spend any money on security	31%	42%	26%	27%	50%	58%	39%
less than 1%	25%	0%	32%	27%	0%	0%	14%
1% - 2%	0%	0%	11%	0%	0%	8%	3%
3% - 5%	0%	11%	11%	18%	0%	4%	7%
6% - 10%	0%	5%	5%	0%	0%	4%	2%
11% - 20%	0%	5%	0%	0%	0%	0%	1%

These results are also supported by the evidence we gathered through our interviews. Most associations confirmed that they actively assist their members in the case of administrative and bureaucratic problems with regional and federal administrations, for example by writing letters to relevant authorities, making phone calls or pulling strings. In many cases, our respondents underlined the importance of individual connections in this respect, as well as the role played by individual

personalities, both at the regional and at the federal level. It seems that as long as good personal relations exist between the association and the respective Russian official, most problems encountered by individual firms can be solved reasonably fast. However, this key role played by informal personal relations also reveals the serious problem of under-institutionalisation that state-business relations in Russia still seem to be suffering from.

Another key issue many of our interviewees pointed out is the high level of regulatory uncertainty in Russia. While the Russian State Duma has been issuing new laws at high frequency, the corresponding secondary rules, provisions and regulations are only issued with significant delay, leading to a state of legal limbo many firms are struggling with. As one of our respondents, president of a leading business association put it:

“Russia during the last years was very active with respect to issuing new laws, but not with respect to analysing [and explaining] these laws. There are about 200 new laws per year, which practically means one new law every working day. At the same time, the necessary regulations and provisions on how to apply these laws do not keep up...[ ]. With respect to life under the sanctions and fast changing rules, we now analyse these new rules and try to communicate to our members what to do, if you go there, this might be problematic, but if you go here, things should be all right. This is the kind of analytical work we are doing at the moment.”

Helping their member firms to navigate a fast changing regulatory environment by analysing, interpreting and providing information on new rules and regulations thus appeared as a key service offered by foreign business associations. On the other hand, problems with predatory behaviour by state agencies did not surface in the interviews we conducted, apart from a couple of recent examples linked mostly to the current political climate, thus confirming the results from our online survey. While insecure property rights remain a problem for domestic firms in Russia (Kazun 2015, Markus 2015), it seems that for foreign investors this is no longer as important an issue as it was during the early days of economic transition in the country.

The various problems faced by foreign investors in Russia are also reflected in the way they evaluate the importance of services provided by their respective national business association (table 8). Again, assistance in the case of problems with Russian administrations, as well as help with establishing contacts to Russian officials on the local, regional and federal level is appreciated, while assistance in the case of

problems with Russian and foreign competitors seems to be of relatively minor importance. Even more important than solving problems with Russian administrations however is the role business associations play as a networking platform, and in providing information on rules and regulations (table 8, last column).

The importance of information provision has been underlined by many of our interviewees. Most associations have a regular newsletter that they send to their member firms, containing information about investment opportunities in the country, changes in the regulatory environment, as well as announcements of business-related events. Many associations also conduct regular events to which both member firms, state-officials and other stakeholders are invited, such as for example the traditional business breakfasts regularly organized by the Russo-British Chamber of Commerce. Sometimes, foreign business associations even organize events for Russian investors

Table 8: What kind of services provided by your business association are most useful for the business activity of your firm in Russia? (several answers are possible)

	Assistance in the case of problems with...			Establishing contacts to officials that work...		
	...Russian administration	...Russian competitors	...foreign competitors	...in local (municipal) administrations	...in regional administrations	...in the federal administration
USA	38%	14%	10%	19%	24%	38%
Canada	17%	4%	0%	29%	21%	29%
UK	0%	0%	0%	10%	14%	14%
Poland	7%	7%	7%	0%	13%	13%
India	33%	0%	0%	33%	33%	33%
Japan	50%	9%	6%	9%	3%	13%
Average	24%	6%	4%	17%	18%	23%

	Establishing contacts...		Providing information about markets and regulation within Russia
	...with Russian firms for possible cooperation	...with other foreign companies investing in Russia	
USA	24%	33%	67%
Canada	42%	25%	38%
UK	57%	57%	43%
Poland	20%	27%	60%
India	0%	0%	33%
Japan	19%	6%	59%
Average	27%	25%	50%

in their home country, as for example the Japanese association *Rotobo* which regularly invites groups of Russian investors to Japan.



In an interview we conducted with a representative of a leading foreign firm in the natural resource sector, our interviewee confirmed that it is mainly for the networking and information services that his company is a member of several foreign business associations in Russia. He maintained that while for small and medium firms the assistance and lobbying functions may also be of significant importance, big companies most often have their own possibilities of direct access to Russian government officials, but still profit from the networking opportunities provided by national business associations. He also underlined that at least in certain sectors such as in the natural resource, automobile or chemical industries *sectoral* associations often play a more important role than national business associations in lobbying for certain policies and in providing a platform for an exchange of opinions between state and business actors.

Indeed, it seems to be the case that most foreign investors are not only a member of their own national business association, but are also *in addition* members in sometimes several other business associations (table 9). While 19% of firms were member of at least one other national business association, 21% were members in the Association of European Businesses (AEB), 10% in a sectoral association, and 9% in the Russian Union of Industrialists and Entrepreneurs. As all these associations charge membership fees that are not huge but often large enough to be noticeable (on average around 1000 US dollars for a mid-sized firm per year, although the amount of membership fees varies widely between associations), it seems that the functions that these associations fulfil are indeed appreciated and something firms are ready to pay for.

On the other hand, with respect to day-to-day business activities in Russian regions business associations seem to play a less important role, with only 3% of firms being a member in a regional association, for example. Asked about the relative importance of different contacts and institutions for their work in Russian regions, direct contacts with regional officials and especially with Russian partner firms appear to be much more important to foreign investors than links with business associations or regional chambers of commerce (table 10).

Table 9: Apart from being a member of you home country's association, is your firm also a member of any other business association? (% share of the firms participating in the survey)

	Another foreign business assoc.	AEB (Assoc. of European Businesses)	RSPP (Russian Union of Industrialists and Entrepreneurs)	TPPRF (Chamber of Comm. and Indust. of the Rus. Federation)	Opora (Russian Organ. of Small and Medium-Sized Business)	Delovaya Rossiya (Russian Union of Entrepre.)	A sectoral assoc.	A regional assoc.
USA	29%	62%	14%	10%	0%	0%	19%	5%
Canada	21%	8%	17%	0%	0%	0%	0%	8%
UK	29%	29%	10%	10%	0%	0%	10%	5%
Poland	33%	7%	0%	0%	0%	0%	33%	0%
India	0%	0%	0%	0%	0%	0%	0%	0%
Japan	9%	50%	6%	9%	3%	13%	19%	6%
Total	19%	21%	9%	4%	0%	0%	10%	3%

Table 10: How important are the following contacts and institutions for the work of your firm in a given Russian region? (several answers possible)

	Direct personal contacts with the governor		Direct personal contacts with the mayor		Direct personal contacts with other officials	
	Not important / somehow important	Important / very important	Not important / somehow important	Important / very important	Not important / somehow important	Important / very important
USA	6	9	4	11	4	11
Canada	9	7	9	7	10	5
UK	12	6	11	7	9	10
Poland	4	6	8	2	4	6
India	1	0	1	0	1	0
Japan	15	7	15	7	13	8
Sum	47	35	48	34	41	40

	Official contacts with representatives of a federal ministry / agency		Business Associations		Regional Chamber of Commerce and Industry		Contacts with a Russian partner firm	
	Not important / somehow important	Important / very important	Not important / somehow important	Important / very important	Not important / somehow important	Important / very important	Not important / somehow important	Important / very important
USA	7	9	8	7	12	3	9	6
Canada	7	8	9	5	9	4	3	14
UK	12	7	10	8	12	5	6	13
Poland	5	5	7	3	7	3	4	6
India	1	0	1	1	1	0	1	1
Japan	12	10	13	8	16	6	4	18
Sum	44	39	48	32	57	21	27	58

After having looked at the role played by national business associations in assisting their members with problems and providing information and networking services, we will now look at their role played in advancing and lobbying the *collective* interest of their member firms. Using the current political situation as a kind of natural experiment, we will do this by looking at the way different associations reacted to the current political and economic crisis caused by the recent events in Ukraine.

We find that the crisis does indeed significantly affect the circumstances in which foreign firms do business in the country. For 25% of respondents the business climate has become somewhat and for 39% significantly worse during the last three years (table 11). Similarly, for 76,5% of firms in our survey the direct effects of the crisis led to a somewhat or even a significant worsening of their situation, while an additional 9,5% actually had to stop their activities in Russia or are considering to leave the country in the near future (table 12).

Table 11: How do you evaluate the dynamics of the investment climate in Russia during the last 3 years?

	USA	Canada	UK	Poland	India	Japan	Total (as % of all respondents)
The business climate has become a bit better.	2	2	2		1	8	16%
The business climate has become significantly better.		1		1		1	3%
The situation has remained at about the same level.	2		2	1		2	8%
The business climate has become somewhat worse.	2	3	7	4		7	25%
The business climate has become significantly worse.	8	10	8	4	1	5	39%
Difficult to say.	2	3		1		2	9%

Table 12: How does the current political and economic situation in Russia (international tensions, sanctions and Russia's economic difficulties) affect your business in Russia ?

	USA	Canada	UK	Poland	India	Japan	Total (as % of all respondents)
Current events had a significant effect on our business, to the extent that we had to stop our activities in Russia.		2	1				3,5%
Current events have a significant effect on our business, to the extent that we are considering to leave Russia in the near future.	1	1	1			2	6%
Doing business in Russia has become significantly more difficult because of current events.	7	9	8	7		8	46%
Doing business in Russia has become somewhat more difficult because of current events.	6	2	5	3	1	9	30,5%
For now, current events did not have a perceptible impact on our activities in Russia.	1	2				1	5%
For our business, the situation has actually become better.		1	3		1		6%
Difficult to say.		2				1	3,5%

In such a situation, foreign business associations could therefore – at least in theory – play an important role in communicating the difficulties their member firms are suffering from both to the Russian and their home country authorities, by lobbying for example against the imposition of further economic sanctions, or for cancellation of existing ones. Interestingly, the foreign business associations we surveyed differed markedly in the way they reacted to the crisis.

Some of our respondents were very vocal in condemning the sanctions and counter-sanctions, making it clear that they were critically voicing their concerns whenever they had the possibility to do so. For example, as Italian food producers had been suffering significantly by the counter-sanctions imposed by the Russian government, the head of the Italian business association had been actively criticizing the economic conflict between Russia and the West, both in Russia and at home. Other associations, especially those from East Asia but also for example the Finnish association, maintained that as a business association they had to remain strictly

neutral, by restricting their activities to business related issues and not voicing their concerns publicly. Only four associations however, namely the German, American, British and European association, seemed to be engaged in some sort of systematic effort to make the interests of their member firms heard by decision makers in Russia.

Despite various efforts by these larger associations to collectively voice the concerns of the foreign business community, our respondents remained pessimistic with respect to the potential success of such collective initiatives in the current situation. One representative of a major business association told us that the problem was not in obtaining access to economic decision-makers in the country. He maintained that all of the major foreign business associations continue to have a good working relationship with the Ministry of Finance or the Ministry of Economic Development. The problem rather seemed to be that although Russia's economic decision-makers well understood the concerns of the business community, knew what to do to solve these problems and were willing to solve them, they were unable to do so because their ability to take decisions had been severely restricted by a small group of people close to the presidential administration and the security ministries who did care only to a limited extent about the concerns of the business community. In the words of our respondent,

“...this idea [about what to do] was voiced during the breakfast, and it was voiced by the Minister of Economic Development, by the Minister of Finance, by the head of the Duma Budget Committee, all in the spirit of *if we only were in power, we knew what to do*”.

This example illustrates how under normal conditions the biggest foreign business associations in Russia seem indeed to have a certain degree of lobbying power, which however appears to be rather limited during the current crisis, as their traditional interlocutors have lost much of their former influence in a domestic power struggle. On the other hand, those associations with more limited resources seem to focus primarily on providing services and support for individual member firms, while their ability to lobby in a systematic way appears to remain rather limited.

## 5) Discussion

In view of these findings, what can we say about the welfare effects of collective action by foreign investors in the context of the Russian Federation? In our study, we did not find any evidence that associations of foreign firms act as rent-seeking special interest groups, in the sense of Olson (1965, 1982), Krueger (1974) and Bhagwati (1982). While only a few big associations had the institutional ability to lobby special interests before the onset of the current crisis, the current political situation seems to have further limited their ability to influence legislative and political decision-making in Russia. Moreover, the lobbying activity that did take place was mostly directed at removing barriers and regulations that were harmful to the business community at large, such as for example attempts by the American Chamber of Commerce to remove or weaken the Jackson-Vanik amendment in the US (before it was replaced by the Magnitsky Act in 2012). Other examples where foreign business associations tried to voice their concern were a new Russian law on compulsory deposits for foreign credit card companies, or new rules forcing internet firms to store data about Russian citizens on Russian territory. In both cases, the laws were adopted very fast, and would have caused significant economic harm had they actually been enforced. While lobbying by business associations did not have any visible impact on the legislative process at first, the laws were ultimately not enforced as the negative economic consequences would indeed have been significant.

As opposed to the rather limited role played by foreign associations in lobbying the collective interests of their member firms, a very important role is the provision of information. In helping their member firms to navigate an environment characterized by high levels of institutional and regulatory uncertainty, the business associations we surveyed permitted their members to spend resources on wealth creation rather than on trying to individually understand Russia's often opaque and fast changing regulatory environment. In providing informational and networking services to their members, as well as through exchanging information between different foreign and domestic business associations and therefore creating synergy effects in the gathering and analysis of information, these associations played an important role in advancing the collective understanding of Russia's business environment among foreign *and* domestic firms in the country.

Indeed, an important element we have observed during our study was the active exchange of information among different associations and organizations. Through a large number of often relatively informal meetings, conferences and roundtables organized by both foreign and Russian business associations as well as by the

Russian government, knowledge was exchanged and new insights were shared. For example the Russo-British Chamber of Commerce organized regular roundtables together with the Russian Migration Service in order to share best practices and make the migration process more efficient. Most of the leading representatives of the associations we interviewed knew each other and were in regular contact, especially if their associations shared some institutional commonalities such as the American, Canadian and British or the various European associations. Some associations also actively promoted contacts to Russian firms and investors and tried to attract them to their home countries, such as the Japanese, Italian, Norwegian or Finnish associations. While the Japanese association *Rotobo* was for example regularly organizing and financing trips of Russian investors to Japan, the Italian association helped Russian firms to be represented at trade fairs in Italy. Foreign associations thus played a positive role not only with respect to foreign firms in Russia, but also with respect to Russian firms that looked for opportunities to do business and invest abroad.

In addition to providing information, foreign business associations also played an important role in supporting their member firms in the case of problems with Russian regulatory authorities. One important difference to the role played by domestic Russian associations is that foreign associations seem no longer have to assist their member firms in the defense against predatory state agencies, criminal groups and raiding attacks. For example, while a high number of Russian-owned firms still appeal each year to the Russian business association “Business against Corruption” (BaC) for protection against criminal and violent raiding attacks, almost no foreign owned firms did appeal to BaC for protection since its inception in 2011 (Kazun 2015). In our interviews and our survey, we also did not find any evidence that insecure property rights are still a problem for foreign investors. An exception are the risks inherent to Russia’s volatile political situation at the international level, for example with respect to Turkish investors whose situation in Russia has significantly deteriorated as a consequence of the recent crisis between both countries, a development that was both fast and largely unpredictable.

In sum, while the current political situation in Russia has at least temporarily weakened the influence of both the “liberal” wing in the government and Russian and foreign businesses, there is a lot of evidence showing how foreign business associations together with their domestic Russian counterparts do nevertheless play an important role in trying to create a more open and business friendly environment. In this sense, they indeed might play a role as catalysts for gradual institutional change from a limited to a more open access order as described by North, Wallis and

Weingast (2009), even though in the short term it looks as if Russia is moving into the opposite direction. Here the ability of both foreign and domestic businesses to collectively advance their interests against an oligarchic elite that is trying to keep a limited access order in place might play a key role in the future.

## **6) Conclusion**

Based on our firm survey and the interviews we conducted for our study, we found that foreign business associations do indeed play an important role for foreign investors in the context of a country characterized by still incomplete and often contradictory institutions, the Russian Federation. Foreign business associations in Russia assist their member firms in case of problems encountered with the bureaucratic and regulatory framework, and provide them with informational services and opportunities to establish contacts with Russian officials, firms and other important stakeholders. In this sense, we find that the role they play is largely welfare enhancing not only for their members but also in more general terms, along the lines of what has been found by earlier studies on the role of business associations in transition economies (Pyle 2011, Duvanova 2007, 2011, 2013).

Indeed, the ability of foreign business associations in Russia to advance the narrower interests of their member firms, as for example by lobbying for specific laws or regulations that would benefit their members but could be harmful for society at large, seems limited if not inexistent. While the smaller associations largely focus on the provision of services, those larger associations that have the ability to advance the collective interests of their member firms seem to have used this ability only to a limited extent, mostly in order to prevent the introduction of new contradictory laws and regulations that might have resulted in negative outcomes for the business community in general. Moreover, we found that in Russia's current political environment the voice of business seems at least temporarily have lost its influence on political decision-making, making it currently almost impossible even for the largest foreign business associations to advance the collective interest of their members.



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