

THE ROLE OF BUSINESS ASSOCIATIONS IN 2005–2010

Individual or collective strategy?

When a firm faces obstacles for doing business it has two ways to overcome them. One way implies individual strategy when the firm tries to solve the problem itself. The alternative way is to cooperate with other firms that would also benefit from that action and solve the problem jointly. This paper focuses on the ways of how firms solve the problem of not beneficial existing laws and regulations and study the factors that determine the choice of firm strategy.

Each strategy of lobbying has its own positive and negative features. The collective lobbying may be more effective because it should be considered to be more legitimate. If a politician approves changes of legal environment that are lobbied by a single firm it may be regarded as corruption. It's quite another story when the changes are lobbied by a business association for the purpose of the whole sector.

From the other hand influencing through associations may be less attractive exactly because of the collective action. The necessary condition for collective lobbying is that its purpose should benefit the major part of lobbying group. If a proposed changes bring the advantage to some members and disadvantage to the other the collective lobbying is unlikely to happen. Moreover economic literature states that even if all members would benefit from the results of collective action this action may not happen.

Individual lobbying strategy requires sufficient political or economical weight or personal connections with the decision making politicians or bureaucrats. So the collective strategy is the chance for firms that do not have bargaining power and personal connections.

The affairs with the authorities may be not only a source of benefits but also a source of losses. Even firms which effectively cooperate with the officials may suddenly be captured by public agents. Lobbying through associations should be safer way of influencing than lobbying directly through politicians and bureaucrats. It allows to interfere with the officials and to keep distance from them at the same time.

Finally the effectiveness of different lobbying strategies should influence the choice of businessmen.

This working paper contributes to the studies that compare the effectiveness of lobbying through different channels (e.g., [Frye, 2002; Campos, Giovannoni, 2006]). Some of these studies use membership in association as a proxy for lobbying via associations. However according to our data (Table 1) members more often use all channels of influencing. So the question is whether associations provide lobbying opportunities or members succeed because they use other channels of lobbying. Our data allows us to deal this problem and to compare the effectiveness of different channels of lobbying.

This study attempts to answer the following questions. Whether firms lobby through the all channels they have access to or they choose the strategy according to the pros and cons of different channels of lobbying mentioned above? What factors determine the choice of lobbying strategy? And how effective are different lobbying channels?

The description of the data

The results presented here are based on a survey of Russian firms conducted by the Institute for Industrial and Market Studies (HSE) and the Levada Center.

The survey took place in late 2010. It involved 1013 companies in six industrial sub-sectors (mechanical engineering, metallurgy, chemical, woodworking, light industry and food industry) and four non-industrial sectors (information technology, trucking, retail, and travel services). The surveyed firms were located in settlements of different types (from large cities to small towns) in 60 regions of Russia. About 9% of firms were situated in Moscow, 9% were situated in St. Petersburg,¹ more than half (53%) were situated in regional capitals. The rest were companies located the peripheral cities, small towns and villages.

The industrial enterprises account for about a half of the sample, the other half is non-industrial firms. The surveyed companies have the following size distribution. One third of industrial enterprises have 100–250 employees, one third of industrial enterprises have 251–500 employees, and the rest have more than 500 employees. Non-industrial companies are significantly smaller: 46% have less than 25 employees, and 30% – from 26 to 100 employees. The level of companies that are members of at least one business association is about 38%.

The respondents were asked two questions concerning lobbying activities of their firms. First question they were to list all the ways in which their company was trying to influence the content of new laws or regulations that are important to their

¹ Moscow and St. Petersburg are two big cities of Russia. These are the only cities that have constitutional status “cities of federal importance”.

business. The provided optional answers were “via business associations”, “via personal contacts with officials”, “via media” and “via personal contacts with influential persons (other entrepreneurs, public figures – anyone who cannot be classified as the officials)”. The summary of respondents’ answers is provided in Table 1.

Table 1. Ways of promoting interests of the companies
(number of firms that use each channel
of lobbying is reported)

Ways of promoting the interests of the company	Members		Non-members		Total	
	number of firms	%	number of firms	%	number of firms	%
Business association	106	28	26	4	132	13
Personal contacts with the officials	103	27	54	9	157	15
Both business association and personal connections with the officials	54	14	9	1	63	6
Media	43	11	15	2	58	6
Personal contacts with the influential people (not the officials)	31	8	12	2	43	4
Total (in sample)	385	100	628	100	1013	100

One may see that the use of different channels for lobbying is positively correlated (Table 2). This supports the hypothesis that the enterprise tries to use various channels instead of choosing a particular strategy.

Table 2. The use of different channels of lobbying.
Pairwise correlation table

	Governor	Regional deputies	Mayor	Local deputies	Media	Business associations
Officials:						
governor	1,00					
regional deputies	0,38	1,00				
mayor	0,39	0,42	1,00			
local deputies	0,29	0,45	0,60	1,00		
Media	0,24	0,39	0,29	0,38	1,00	
Business associations	0,26	0,26	0,27	0,28	0,38	1,00
Influential persons	0,29	0,29	0,22	0,23	0,33	0,34

The second question evaluated the efficiency of lobbying activities of firms. On a three-point scale (“almost always”, “rarely”, “never”) respondents estimated how often their company succeeded to influence the final content of new documents issued at federal, regional and local levels. The distribution of answers is given in the Table 3.

Table 3. Successfulness of lobbying on different levels
(number of companies)

	Federal	Regional	Local
Always/almost always	10	18	18
Rarely	53	97	108
Never	56	46	37
No answer	4	8	4
Do not try to lobby	890	844	846
Total	1013		

The constructed variables

The use of different channels of lobbying was indicated by the set of dummy variables (*lobbying_BA*, *lobbying_officials*, *lobbying_media*, *lobbying_infl_pers*). Each of them takes value of 1 if a company uses corresponding channels of lobbying and 0 otherwise.

The efficiency of lobbying is measured by special index (*lobbying_success*) that is based on the answers to the second question. It takes a value from 0 to 3 (more efficient lobbyists have higher index). For example, if a company have not tried to influence the content of documents or company never succeeded at any level, the index takes a value of 0, if it has succeeded very often at least at two levels of authority, the index took a value of 3.

The questionnaire includes a question about the risks of being captured by the officials. Respondents estimated the probability that his or her firm might get under the control of regional or local authorities using a three-point scale.

The size of firms may influence their lobbying potential (e.g., larger firms may have more advantages). In order to control for size effect the logarithm of the number of firm’s employees is introduced in the equation. Membership in business group and foundation period of the firm may also explain its propensity to lobbying or the efficiency of lobbying by this firm. So the corresponding control variables are also included in the equation.

Survey involved companies located both in large cities and small towns. The status and the size of settlement may influence the lobbying ability of the company. For example firms located in capital cities may have better access to federal and regional authorities and firms located in small towns may have greater political weight at local level (other conditions being equal). A set of use dummy variables for settlements of different status was used to take into account the impact of the enterprise location.²

The hypotheses

The empirical strategy of this working paper is the following. First the factors that determine the choice of channels of lobbying are analyzed. Next the riskiness of individual and collective lobbying strategies is estimated. Finally the efficiency of different channels of lobbying is compared.

The regression analysis is used to test the following main hypotheses:

1. Connections with politicians and bureaucrats should encourage individual lobbying. Council membership, familiarity with governor or mayor and the experience in bodies of state administration are used as proxies of personal connections. Foundation period can also indicate personal connections with the officials (older firms are more likely to be connected).

2. Individual strategies of lobbying are related to higher risks of being captured by the officials.

The results

To study what factors determine the choice of lobbying channels (Table 4) the following model was estimated:

$$\text{lobbying_channel}_i = \beta_0 + \beta_1 \cdot \text{lobbying_advantages}_i + \beta_2 \cdot \ln(\text{employees}_i) + \beta_3 \cdot \text{sector}_i + \beta_4 \cdot \text{controls}_i + \varepsilon_i.$$

lobbying_channel is a variable that takes four values. It indicates one of the following alternatives: not to lobby, lobby via personal contacts with the officials, lobby via associations or lobby using both of these strategies. “Not to lobby” is a base category.

lobbying_advantages implies the set of variables that indicate firm’s connections to the officials: the participation in councils that are organized by federal re-

² The selected categories are “Moscow”, “St. Petersburg”, “regional capitals”, “provincial towns” and “villages”.

Table 4. The choice of channels of lobbying (standard errors in brackets)

Coefficient	1			2			3			4		
	Officials	BA	Officials & BA	Officials	BA	Officials & BA	Officials	BA	Officials & BA	Officials	BA	Officials & BA
Foundation 1992–1998 ^a	-0.634*** [0.260]	0.261 [0.217]	-0.003 [0.243]									
Foundation 1999–2004	-0.333 [0.242]	-0.259 [0.236]	-0.722** [0.288]									
Foundation after 2004	-0.671** [0.295]	-0.685** [0.331]	-0.914*** [0.346]									
Council_fed				0.213 [0.390]	1.189*** [0.329]	0.999*** [0.382]						
Council_reg				1.120*** [0.271]	0.834*** [0.302]	1.666*** [0.284]						
Council_loc				1.016*** [0.293]	0.621* [0.327]	1.231*** [0.304]						
Familiar_Governor							0.735*** [0.216]	0.432* [0.231]	0.602*** [0.223]			
Familiar_Mayor							0.949*** [0.238]	-0.096 [0.217]	0.766*** [0.246]			
Experience in state bodies										0.863*** [0.264]	0.060 [0.330]	0.526* [0.284]
ln(employees)	0.265*** [0.094]	0.265*** [0.087]	0.249*** [0.090]	0.193** [0.098]	0.212** [0.090]	0.177* [0.092]	0.121 [0.102]	0.280*** [0.093]	0.190** [0.092]	0.264*** [0.0905]	0.307*** [0.0828]	0.310*** [0.0873]
Holding_parent	0.638 [0.427]	0.291 [0.490]	-0.027 [0.515]	0.524 [0.440]	0.381 [0.472]	0.0819 [0.472]	0.512 [0.444]	0.338 [0.504]	0.187 [0.475]	0.51 [0.418]	0.274 [0.472]	0.223 [0.470]
Holding_subsidary	-0.096 [0.213]	-0.151 [0.219]	-0.37 [0.234]	-0.235 [0.221]	-0.321 [0.232]	-0.358 [0.258]	0.005 [0.218]	-0.174 [0.224]	-0.334 [0.231]	-0.068 [0.210]	-0.15 [0.217]	-0.292 [0.228]
Sector dummies	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Number of firms	913	913	913	913	913	913	888	888	888	910	910	910

^a “Foundation before 1991” is the base category. ^b Significance levels are the following: * – $p < 10\%$; ** – $p < 5\%$; *** – $p < 1\%$.

gional of local authority, the fact that the top manager of the firms is familiar to governor of mayor, the period of firm foundation, the experience of the top manager in the bodies of state administration.

The equation was estimated by multinomial probit regression. The results of estimation (coefficients) are provided in Table 5.

Table 5. Risks of being captured by the officials; “low risks” is omitted (standard errors in brackets)

Coefficient	Completely safe	High risks	Completely safe	High risks
	2		3	
lobbying_officials ^a	−0.455** ^b [0.214]	0.773*** [0.281]	−0.477** [0.216]	0.761*** [0.282]
lobbying_BA	−0.433* [0.244]	0.020 [0.342]	−0.451* [0.245]	0.015 [0.339]
lobbying_officials&BA	−0.275 [0.257]	0.718** [0.313]	−0.409 [0.272]	0.663* [0.343]
BA_head			0.439 [0.327]	0.201 [0.419]
log_empl_s2	0.062 [0.071]	−0.103 [0.089]	0.054 [0.071]	−0.106 [0.089]
holding_gol	0.309 [0.383]	−0.073 [0.536]	0.326 [0.384]	−0.064 [0.537]
holding_doch	0.092 [0.156]	−0.818*** [0.287]	0.093 [0.156]	−0.817*** [0.287]
City type, sector dummies	Yes	Yes	Yes	Yes
Observations	860	860	860	860

^a The base category is formed by non-lobbying firms.

^b Significance levels are the following: * – $p < 10\%$; ** – $p < 5\%$; *** – $p < 1\%$.

Unfortunately, when using council membership indicators and familiarity indicators unresolved endogeneity problem arises. Not only lobbying may be encouraged by these advantages but also the connections may occur while lobbying and communicating with the officials. This logic may explain high correlation between all lobbying mechanisms and the council membership and familiarity with governor or mayor. This correlation is provided in column set 3 of Table 4.

When more exogenous measure of connections is used more intuitive pattern should appear. The experience of the top manager in the bodies of state administration is quite exogenous indicator as it is connected with the past and cannot be

affected by current lobbying activity. Column set 4 provides the evidence that this experience encourages using only the individual strategies and do not stimulate lobbying through associations.

To study how lobbying activity is connected to risks of being captured by the officials the following model was estimated:

$$\begin{aligned} capture_risk_i = & \beta_0 + \beta_1 \cdot lobbying_officials_i + \beta_2 \cdot lobbying_BA_i + \\ & + \beta_3 \cdot lobbying_officials_BA_i + \beta_3 \cdot \ln(employees_i) + sector_i + city_type_i + \\ & + \beta_5 \cdot controls_i + \varepsilon_i \end{aligned}$$

According to Table 5 all lobbyists experience higher risks of being captured by the officials. If a firm use either individual or collective strategy of both it is less likely to feel completely safe. Individual strategy is indeed more risky one. Those who lobby via personal connections more often report about high risk of being captured.

To compare the effectiveness of different ways of lobbying the following model was estimated:

$$\begin{aligned} lobbying_success_i = & \beta_0 + \beta_1 \cdot lobbying_BA_i + \beta_2 \cdot lobbying_officials_i + \\ & + \beta_3 \cdot lobbying_media_i + \beta_4 \cdot lobbying_infl_pers_i + \beta_5 \cdot \ln(employees_i) + \\ & + sector_i + city_type_i + \beta_6 \cdot controls_i + \varepsilon_i \end{aligned}$$

lobbying_success_i is the lobbying success index described above.

lobbying_BA_i, *lobbying_officials_i*, *lobbying_media_i*, *lobbying_infl_pers_i* are dummy variables that take value of 1 if the company tried to lobby via business associations, via personal contacts with the officials, via media and via personal contacts with influential persons (not officials).

The estimation results are given in Table 6. The first column of the table presents the results of the effectiveness of various channels of lobbying. The most effective are the two most common ways: through consultation with government officials and a business association. It is interesting that both methods give quite similar efficiency.

As it was mentioned, quite often companies use both officials and associations to promote their interests. Therefore intersection term was introduced in the equation. Results in column 2 indicate that the use of both officials and associations is more effective than the use of any single channel, but the efficiency is not additive. The effect of membership in associations is not just the fact lobbying by the association. Members of business associations may better use other channels of lobbying, than the companies that are not members.

Columns 3–5 present the robustness check of the obtained results. The coefficient of dummy for membership in associations appears to be rather low and insignificant (column 3). So members of associations use other channels of lobbying as efficiently as non-members do. But if one of the company managers is a board mem-

Table 6. The effectiveness of different ways of lobbying
(standard errors in brackets)

Coefficient	lobbying_success index				
	OLS	OLS	OLS	Panel (fixed effects)	OLS (Clustered)
	1	2	3	4	5
lobbying_officials	0.544*** ^a [0.164]	0.910*** [0.201]	0.891*** [0.191]	0.844*** [0.195]	0.887*** [0.195]
lobbying_BA	0.654*** [0.159]	1.052*** [0.211]	1.005*** [0.216]	0.957*** [0.218]	0.985*** [0.202]
lobbying_officials • • lobbying_BA		−0.580** [0.288]	−0.706** [0.289]	−0.501* [0.288]	−0.567** [0.264]
lobbying_media	0.291 [0.177]	0.332* [0.180]	0.318* [0.176]	0.315* [0.184]	0.331* [0.178]
lobbying_infl_pers	0.190 [0.213]	0.196 [0.215]	0.195 [0.209]	0.219 [0.216]	0.178 [0.248]
BA_membership			0.111 [0.192]	0.260 [0.184]	0.205 [0.210]
BA_board_memb			0.499** [0.223]		
ln(employees)	−0.043 [0.082]	−0.049 [0.084]	−0.063 [0.081]	−0.060 [0.082]	−0.061 [0.093]
Controls ^b	Yes	Yes	Yes	Yes	Yes
Observations	208	208	208	208	208
R-squared	0.191	0.204	0.231		0.210

^a Significance levels are the following: * – $p < 10\%$; ** – $p < 5\%$; *** – $p < 1\%$.

^b Sector dummies, city type dummies, holding membership dummies, foundation time controls.

ber of the association the company may have some lobbying advantages (column 3). Even when regional fixed effects or errors clustered by regions are introduced the results do not change dramatically (columns 4 and 5).

Conclusion

This working paper presents first results of the project. First it provides the evidence that personal contacts to the officials are not the only way of promoting interests of companies in Russia. The data indicates that business associations also offer

lobbying opportunities to Russian companies. Moreover the businessmen estimate the effectiveness of lobbying via associations as high as via personal contacts with the officials.

The use of different channels for lobbying is positively correlated. This supports the hypothesis that the enterprise tries to use various channels of lobbying instead of choosing a particular strategy. Individual strategy is used more often (other conditions being equal) if top managers of a firm are familiar with governor or mayor or they have the experience in bodies of state administration. Older firms also use individual strategy more often. So lobbying through business-associations provides the chance for firms that do not have such advantages.

Finally our data provides the evidence that all lobbying is closely connected with risks of being captured by bureaucrats and politicians. If a firm use either individual or collective strategy it is less likely to feel completely safe. But those who lobby via personal connections with the officials more often report about high risk of being captured.

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