Collective Action and Post-Communist Enterprise:

The Economic Logic of Russia's Business Associations

Abstract: Drawing on a unique set of surveys, this article explores the question of whether Russia's post-communist business associations are generally antithetical to or supportive of the broad objectives of economic restructuring. Contrary to the most widely cited analysis as to the purposes of collective action in the business community, the survey evidence demonstrates that association members have embraced market-adapting behaviors at greater rates than non-members. The responses of both firms and associations, moreover, suggest that the associations themselves are, at least in part, directly responsible. These findings point to the conclusion that in contemporary Russia the net returns to collective action in support of market development are high relative to those for purposes that are less benign.

William Pyle
Economics Department
Middlebury College
Middlebury, VT 05753
(802) 443-3240
wpyle@middlebury.edu

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Since the collapse of the Soviet Union and the formal introduction of markets, a significant percentage of Russian firms have helped form and/or joined business associations. Our estimates suggest that roughly one-third of Russia's manufacturing firms are now members of at least one of these voluntarily comprised, non-commercial organizations; a substantial share of non-members benefit from some of their services as well. However, even though indications are that their economic influence has grown of late, relatively little has been written about them and how their activities affect the Russian economy.

Given that they operate at the interface of the state and the private business sector – well-covered territory in both the social science literature and popular press – this may seem a bit surprising. Certainly, some attention has been given to a small number of politically prominent associations and the waxing and waning of their influence at the highest levels of government. But generally not a great deal is known, in any comprehensive sense, about the organized business community's activity, particularly below the federal level. In particular, little is known about the types of firms that join and the nature of the services that they receive. Perhaps most importantly, we know little as to whether the aims of associations and their members are generally antithetical to or supportive of the broad objectives of economic restructuring and liberalization.

The answer to this question engages a larger question about the post-communist development of market supporting institutions. While much attention has been focused on why they may or may not have been fully or consistently promoted by public policy, less has been given to collective responses at the grassroots level.[2] If, indeed, market-supporting institutions are valuable and Russia began its transition poorly endowed, it is not un-natural to expect that private actors may have organized for their provision. On the other hand, if markets pose a survival threat to some enterprises or, at the most, offer them only limited opportunities, it would not be surprising to find that business organizations have grown up to frustrate their development or modify their outcomes. Given the evidence available to date, it has not been possible to determine which story better characterizes formalized collective action in Russia's business community. Here, however, we present recent survey data that sheds light on this question. This evidence suggests that business associations promote wealth creation by providing a rich array of services that facilitate investments in physical and human capital and the expansion of trade ties. Offering these services, of course, does not preclude offering others whose purposes include rent preservation or wealth redistribution, such as is true of much lobbying activity. But these activities are not the focus of this article. Rather, we highlight collective action in support of market building and wealth promotion, inferring from its prominence that the returns to it, relative to collective action in the pursuit of ends that are less benign, is higher than has been previously acknowledged.

Before proceeding, it should be emphasized that our focus here is on formal organizations for collective action in the business community. A great deal, of course, has been written about the motivation and impact of the oligarchs (Guriev and Rachinsky, 2005; Hellman, 1998; Hoffman, 2002), an ill-defined class of wealthy business people, who have periodically, but not consistently, cooperated in the pursuit of shared objectives. But *ad hoc* assemblies of business people, oligarchs or otherwise, may not share the same motives and modes of operation as more formal structures. It should be noted, however, that many of those that have been identified as leading oligarchs in today's Russia have become prominent patrons of leading business associations.

Two Perspectives on Business Associations

We can partly attribute the prior inattention to Russian business associations to the absence of official data on their numbers, membership rolls and activities. This lack of information, needless to say, has made their collective purpose less than clear. But our relative ignorance may also have resulted, somewhat counter-intuitively, from their objectives seeming to be all too transparent. The apparent perception among many, at least, has been that these organizations effectively serve as vehicles for promoting narrow, rent-seeking interests. This preconception is not all that surprising. After all, the notion that the parochialism of business organizations undermines the public interest has long been deeply ingrained in the social sciences. In *The Wealth of Nations*, Adam Smith offered the following cautionary words as to the free assembly of business people:

> People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public … [T]hough the law cannot hinder … [this] assembling together, it ought to do nothing to facilitate such assemblies…

More recently, Mancur Olson extended Smith's perspective to considerations of macroeconomic development. In *The Rise and Decline of Nations*, one of the most comprehensive assessments of the relationship between institutions and growth, he argues that the effect of increased activity by organized business (and other "distributional coalitions") is highly detrimental, referencing three reasons as to why "organizations for collective action" in the business community undermine a country's ability to allocate resources effectively.[3,4]

Business organizations, for one, facilitate the rent-seeking foreseen by Smith. They invest in redistributive activities (*e.g.*, lobbying and cartelization) and thus, *ceteris paribus*, divert resources from investments that generate new wealth (*e.g.*, in human and physical capital). For another, business organizations retard the introduction of new technologies. By potentially producing unequal changes in the production costs of members in a cartel-like collective, innovations may require costly bargaining over new pricing and output policies, thus rendering the collective more averse to change than an individual firm. Organized business interests, moreover, often lobby for bailouts for failing firms and thereby slow the flow of resources to the most dynamic enterprises. Lastly, business organizations often try to protect rents by opposing trade liberalization, which can result in losses to social welfare for reasons related to Ricardian comparative advantage and the weakening of competitive pressures.

In his final book, *Power and Prosperity*, Olson adapts this basic framework to the post-communist world. He locates the source of Russia's poor economic performance within the community of former state-owned firms, which, realizing how ill-prepared their inherited assets left them for competitive markets, collectively lobbied for massive bailouts.[5] The subsequent flow of subsidies slowed the rational re-allocation of resources and fed hyperinflation, thereby undermining the country's macroeconomic performance.[6] Although he generally does not detail the activities of specific business associations, his implication is clear: organized business can be just as pernicious in the post-communist context as it is elsewhere.[7]

Much of the social science literature focusing on business associations in Russia steers clear of judgments about their economic impact (Hanson and Teague, 2005; Kubicek, 1996; Markus, 2003; Sulakshin and Romanikhin, 2003), generally arguing that they have been ineffective advocates for business in an environment in which both civil society remains prone to political control and personal connections persist as the important channels for exercising influence.[8] In this, it does not depart from the basic Olsonian perspective that business organizations for collective action are fundamentally geared toward lobbying. Indeed, similar approaches and conclusions characterize assessments of business associations elsewhere in post-communist Europe (McMenamin, 2002; Orenstein and Desai, 1997).

The perspective described heretofore is too limited. For while it has long been recognized that business associations can and do pursue objectives that benefit their members to the net detriment of society, more recent research has highlighted how, particularly in countries with weak states, they also provide members with services that create net social benefits (Doner and Schneider, 2000). Indeed, across many contexts, they have been credited with resolving complex collective action problems and disseminating information related to technologies and the reliability of potential trade partners (Bennett, 1996; Rauch, 2002; Schaede, 2000; Woodruff, 1998, *World Development Report 2002*).[9]

A common theme linking many of these services is associations' role in the transmission of knowledge, be it ultimately embodied in (1) capital, as new technologies introduced into the production process, (2) workers, as new skills received through training, or (3) managers, as new information about relevant markets. The connection here is not particularly surprising, for economists have long recognized that markets, on their own, tend to generate information and knowledge at less than socially optimal levels. Being non-rival and, often, non-excludable, it is difficult for single actors to appropriate returns that accrue to investment in its generation. Thus without a collective solution, there may well be "under-investment" in developing new technologies, training workers and uncovering valuable information about the identities and reliability of potential trade partners. In the context of strong and reliable governments, public institutions may mitigate, or even solve, these problems. But where government institutions are weak and/or ineffective, collective solutions may be more apt to come from outside the public sector (Doner and Schneider, 2000; *World Development Report 2002*).

Indeed, there is some evidence from Russia as well as other transition countries that, to at least some degree, business associations have filled a post-communist institutional void. Recanatini and Ryterman (2001) demonstrate that members in Russia experienced less of a decline in output than non-members in the early 1990s, postulating that the former faced lower costs of learning about the identity and reliability of potential trade partners. Using data from five post-communist countries, Johnson *et al.* (2002) find that members in associations that disseminate information about prospective trade partners are more likely both to provide trade credit to their customers and to switch to a more price-competitive supplier. Building on their work, Pyle (2005) shows for the same set of countries that even when controlling for pre-existing inter-firm communication, business association membership is positively associated with the dissemination of information about contractual disputes. Members, moreover, are shown to face lower transaction costs when confronting an arrears problem with customers (Pyle, 2006). However, the evidence that associations contribute meaningful value to post-communist markets is not overwhelming. Indeed, several respected commentators have questioned whether associations have played much of a role in mitigating market failures either in Russia (Hendley *et al.*, 2000) or elsewhere in the region (Broadman *et al.*, 2004; Hendley and Murrell, 2003).[10]

These last studies notwithstanding, the suggestion that associations may have important objectives unrelated to lobbying suggests that evaluating the nature of their economic impact is more complex than perhaps previously thought. The activity of business associations in Russia, as elsewhere, should thus be understood within the context of an *associational space* that has two dimensions, which, for the purposes of shorthand, we might refer to as "wealth promoting" and "wealth redistributing."

Associational Space and the Russian Context

Conceptualizing the activity of Russian business associations within such a two-dimensional space has parallels within the literatures on the behavior of both individual firms and commercial business groups. Based on the stocks of physical and relationship capital inherited from the Soviet system, Gaddy and Ickes (2002) describe the Russian enterprise's choice during the transition as one between (1) adaptation to the competitive market and (2) nurturing relationships with government officials.[11] Across most sectors of the economy, the former strategy, they argue, requires substantial investments in physical and human capital and the development of new trade linkages, so as to compensate for the economically irrational pattern of economic organization and resource allocation inherited from the Soviet system. The latter strategy, which they demonstrate has been quite popular, points in the direction of rent-seeking and attempts to perpetuate soft budgets.[12] Huber and Wörgötter (1998) describe a similar strategy set when distinguishing between types of Russian commercial networks.[13] Some "entrepreneurial" networks, they contend, are profit oriented, open to foreign capital and new members. Others are oriented toward "survival" and are composed of firms that are doubtful of their prospects in a liberalized market and, hence, are geared toward rent extraction and promoting policies that limit new entry.[14]

Where do Russian business associations fit in this two dimensional space? How supportive are they of economic restructuring and adaptation to the market? And how much akin are they to distributional coalitions? The answers to these questions are not obvious. Deduction alone does not point clearly down one or the other path. Russian markets have been held back by the absence of well-functioning institutions; and Russian firms, in need of investment and new trade ties, have as a result been harmed. The potential social value embodied in a collective solution that supports economic restructuring would thus appear to be great. On the other hand, in an environment of insecure property rights and murky policy-making processes, the potential returns to creating a redistribution-oriented lobby could promise high returns as well. Business organizations may embody and aggressively pursue both aims, but it is also possible that micro-level disincentives to support any collective objective (*e.g.*, the temptation to free ride on the provision of public goods) render new associations largely ineffective regardless of their apparent aim.

We are thus confronted with questions that can only be answered empirically. But to date, there have been no comprehensive studies of the membership and activities of Russian business associations. Some of the research cited earlier has been based on surveys in which firms have been asked no more than a couple questions about membership in a business association (Pyle, 2005; Hendley *et al.*, 2000, Recanatini and Ryterman, 2001). Other studies that have been less data-centric (Hanson and Teague, 2005; Kubicek, 1996; Lehmbruch, 1999; Sulakshin and Romanikhin, 2003) have tended to focus on a limited number of case studies.[15] The existing research has only been able to offer an impressionistic or "tip of the iceberg" view of the business association community. To answer our questions, therefore, we turn to several recent surveys conducted by the author. These will be described in a subsequent section. But first, we will briefly summarize what is known about the historical development of business associations in Russia.

The Evolution of the Organized Business Community

Many of the first Russian associations grew up to promote the interests of cooperatives and other small-scale entrepreneurial ventures permitted during the *perestroika* era. Others were founded during the pre-1992 period by large state enterprises that, as centralized coordination of economic activity diminished, sought ways to both maintain pre-existing inter-firm ties and represent collective interests *vis à vis* public officials. Former government ministry officials, unsure of how to use their institutional knowledge in the post-planning era, established a number of the first associations. And indeed, many firms are reputed to have joined initially more to avoid alienating potentially powerful figures than to help address restructuring needs (Lehmbruch, 1999).

With a few exceptions, many of the first associations were neither well organized nor clear in purpose. Few, for instance, held regular congresses with members. And indeed, some were used as "pocket associations," – *i.e.*, "non-profit" vehicles to promote the financial interests of the individuals that founded them. There were several noteworthy exceptions, including the two business associations that to this day remain the most developed and influential, the Russian Union of Industrialists and Entrepreneurs (*RSPP*) and the Chambers of Commerce and Industry (*TPP*) (Sulakshin and Romanikhin, 2003).

RSPP initially developed at the federal level as an alliance of "red directors" that offered, at most, measured support for market reform. In 1992, it led a lobbying effort calling for wage and price indexation, foreign investment restrictions, cheap energy and subsidized credits for its members – all to put the brakes on the liberalization/stabilization agenda of the Gaidar government (McFaul, 1993; Hanson and Teague, 2005). With respect to privatization, *RSPP* supported transfers to sitting directors rather than outside owners and successfully lobbied for "Option Two" to be added to the Chubais program. By the mid-1990s, its "expert" institute actively participated in the drafting of the state's economic programs and was consulted on bills before the Duma; moreover, it had developed a network of regional affiliates which shared the federal organization's policy positions. After 1998, *RSPP*'s federal-level organization attracted some of the leading oligarchs into leadership roles, making it decidedly more pro-market in orientation. During the Putin years, it has received perhaps the greatest amount of attention for not having aggressively defended one of its biggest patrons, Mikhail Khodorkovsky, in the Yukos affair (Hanson and Teague, 2005). Generally, though, both its regularized lobbying and service provision have gone un-noticed by commentators. Particularly below the federal level, we heretofore have had little sense of the aims and impact of *RSPP*'s independent affiliates that operate in different territorial subjects.

Like the *RSPP*, the Chambers of Commerce and Industry (*TPP*) draw in members from a wide range of economic sectors. Now numbering 169, they have been specially constituted under a 1993 law guaranteeing their independence from state bodies and broadly defining their mission as creating favorable conditions for Russian business. The *TPP* also stands out within the community of business associations for being able to trace its roots directly back to a communist-era institution, the Chamber of Commerce and Industry of the Soviet Union, which worked with the Ministry of Trade to promote exports and imports with countries outside the communist bloc. The *TPP* thus inherited a set of physical and human assets that likely shapes its development path in the post-communist era. Despite its geographic reach within and outside the country, it has generally maintained a low profile. Although this changed somewhat with the election of Yevgenii Primakov to become the federal Chamber's President in 2001, almost nothing has been written about *TPP*'s activities. Again, this is particularly true of the independent Chambers that operate at the regional and municipal levels.

The reforms launched in 1992 also gave rise to a wave of national-level, sector-specific organizations as well as a number of other sectoral and multi-sector organizations that operate at the regional and territorial levels. The lack of a comprehensive registry has rendered accurate accounting of their numbers impossible.[16] But available information suggests they trended upwards in the latter half of the 1990s and, subsequently, during the Putin years. Unsurprisingly, they have been disproportionately concentrated in Moscow (*Rossiiskiie obedineniia predprinimatlei*, 2001).

Membership Rates and Characteristics

In light of the lack of comprehensive sources of information about their composition, activities and impact, the author designed three surveys that were administered between November 2003 and July 2004.[17] First, to assess membership rates in business associations across firms of different size and industrial branch, a screening survey of 1353 enterprises was carried out in 48 territorial subjects of the Russian Federation. Respondents were asked only to identify the firm's ownership type and whether or not it (or a representative of its management) was a member of a business association. If a member, they were then asked to provide the name(s) of the association(s) to which they belonged. By construction, slightly under half of the respondents were to employ between ten and one hundred workers, with the rest having workforces in excess of one hundred; they were, as well, to be distributed roughly equally across geographic space and seven non-energy-related industrial branches.[18]

The mean and median sizes of the respondents were 485 and 130 employees, respectively. A small minority of those surveyed, 6.8%, reported being municipal or state enterprises; the rest were privately owned. Overall, 34.2% of the respondents reported being a member of at least one business association, while 6.7% reported being in at least two.[19] With respect to specific associations, as we suspected, membership rates in a Chamber of Commerce or an affiliate of the *RSPP* were the highest, 15.2% and 7.8%, respectively. By branch, membership rates ranged from a low of 27.0% in metallurgy to a high of 44.6% in light industry. As shown in Figure 1, in each of the branches, membership rates increase in the size of the firms such that, overall, the rate in firms with over 500 employees (57.6%) substantially exceeded that in firms of under 100 (21.4%).

[FIGURE 1]

This screening survey was used as the basis for a more detailed survey of 606 firms conducted from May to July in 2004. Once again, the objective was to achieve roughly equal distribution across branches within the context of a regionally balanced sampling. But here, by construction, roughly half of the firms were to be members of associations. The screening survey's findings of membership rate variation across branches and employment size were used to weight the sample's distribution of members and non-members across these two dimensions.[20] In addition to standard firm-specific information -- *e.g.*, organizational history, ownership structure, size and performance measures, perceived barriers to business operations, *etc.* – the survey asked firm managers a series of questions about their interaction with business associations. Some of these latter questions were directed at all firms and some were only designed to be answered by members of associations.

A third survey, administered at the same time to the directors of two hundred business associations, asked questions relating to the organization's origin, membership, finances, internal governance, density, services and interaction with public officials.[21] Without an official registry of business associations, a variety of sources were used to generate a sample of active associations. A primary objective here was to achieve adequate representation of multi-sector as well as single-sector organizations in those industrial sectors in which we were sampling firms.[22] An effort was also made to include associations representing regional units across the country and at different jurisdictional levels – federal, regional and municipal.[23] Finally, given the large percentages of firms that reported in the screening survey belonging to different Chambers of Commerce and affiliates of *RSPP*, roughly proportionate numbers of both were included in the sample. The distribution of years over which the surveyed associations were founded is recorded in Figure 2A.

Of the 280 business association members in the larger survey, 68.6% reported belonging to just one, 21.8% to two, and just under 10% belong to three or more. These firms, we found, were a bit more likely than non-members to have been privatized (60.7% and 50.3%, respectively), and a bit less likely to have been *de novo* enterprises (35.0% and 42.0%) or wholly state (or municipally) owned (3.6% and 6.4%).[24]

We asked enterprise directors a series of questions about the two associations most important to their enterprise. In Table 1, we provide a breakdown of the types of associations to which the respondents reported belonging. Among the economic sectors that we surveyed, the Chambers of Commerce (*TPP*) and the network of affiliates of *RSPP* can claim relatively high membership rates. Specifically, we find that 46.7% of our member-respondents belong to a regional or territorial *TPP* while 16.9% have joined *RSPP*'s independent, sub-national affiliates. Roughly one-quarter, or 26.8%, are members of a multi-sector association other than *RSPP* and *TPP*. Roughly a third, 32.4%, report being members of sector associations, the plurality of which belong to national-level associations.

[TABLE 1]

As for why firms do not currently belong to an association, some explicitly cited resource constraints. In addition to the 19% who referenced "insufficient time," just over 10% cited the "high cost of membership dues." Overall, the median annual due paid by members amounted to roughly $200, but there is a great deal of variation; a number of firms, moreover, report also making additional contributions in both cash and kind.

In addition to those that reported not belonging because they found the time and/or dues prohibitive, half of non-members (50.6%) explicitly stated that they did not think that association membership would in any way be useful for their businesses and an almost equally large number (39.6%) responded that they believed that they could address their problems more effectively on their own. Our evidence suggests that not being a member is rarely the result of ignorance; only 8.6% of current non-members reported being unaware of business associations and their activities. A small percentage of non-members (2.1%) reported being in the process of applying.

Among the surveyed firms, 11.6% report having been a member of an association to which they no longer belong.[25] Of these, roughly one-third (31.9%) left due to the perceived inability of the association to represent the firm's interests before public officials (either through general lobbying or direct participation in the legislative process); roughly one in six (15.9%) expressed a general sense that the services offered by the association were inadequate. Equal numbers (10.1%) report discontinuing membership because of either policy disagreements or the association's dissolution. And a comparatively small percentage (8.7%) report being unable to afford the association's dues. Finally, 5.8% of firms report having left an association explicitly because they were joining another association. This suggests a relatively low level of churning and not a great degree of competition among associations for members.

There is little evidence that associations are terribly exclusive. Indeed, only one current non-member in our survey reported having been denied admission to an association. And of current members, only one-sixth reported knowing about a situation in which an association to which they belong dropped a member. Most of these cases, roughly three-quarters, related to financial issues (*i.e.*, not paying dues or declaring bankruptcy) while a much smaller number related to the violation of the association's standards or business ethics. And only ten percent of members knew of even a single circumstance in which a firm wanted to enter an association but was not given the opportunity. Of these, the applicant's poor reputation and known violation of business ethics was the specific response cited the most frequently. All in all, the apparent inclusiveness of the association community suggests their objectives transcend the suppression of competition and the preservation of rents.

[FIGURES 2A and 2B]

The years during which firms report having joined can be used to provide a sense of how flows into associations have changed across time.[26] As we can see in Figure 2B, a small minority reports having entered associations (to which they continue to belong) in the Soviet era. After 1992, entry has been steady but seems to have picked up during the Putin years. Indeed, the single biggest annual spike in membership occurred in 2000.[27] Putting together the small number of reported membership terminations with the joining dates leads us to conclude that there has been a noteworthy increase in membership in business associations during the Putin era.

Members' Behavior

Having provided a brief overview of the surveys, we now return to our question as to whether the activity of associations is generally antithetical to or supportive of the broad objectives of economic restructuring. The multiple survey instruments allow us to approach the question from the perspective of both firms and associations. We begin with the former and proceed on the assumption that the manner in which members' behavior differs from that of non-members offers insight into the nature and purposes of organizations to which they belong.[28]

Olson's writing actually provides a framework, of sorts, for distinguishing the types of behavior germane to our question. As mentioned above, *The Rise and Decline of Nations* notes three ways in which interest associations in the business community slow a country's economic development: (1) they divert resources to rent-seeking and thus, *ceteris paribus*, away from investments that could enhance the economy's productivity; (2) they retard the introduction of new technologies; and (3) they oppose the liberalization of trade flows.[29] If the population of Russian business associations is geared toward the sorts of behavior envisioned by Olson, we would expect those objectives to be reflected in the behavior of members, either because associations themselves promote it or because they attract firms that are independently so inclined, or both.

But this is not what we observe. Using firm-level indicators that capture the sorts of behavior that Olson predicted at the association level, the members of Russia's business associations do not appear to represent the distributional coalitions described in *The Rise and Decline of Nations*. As demonstrated in Table 2, association members are more likely to have engaged in actions typically interpreted as restructuring in response to the introduction of market incentives or changing market conditions. In the three years prior to the survey, greater percentages report having made investments in their workforce and capital stock. Moreover, association members report having made investments in new technologies and modes of production at rates that exceed non-members. Association members also demonstrate a greater proclivity for expanding exchange relations abroad.

[TABLE 2]

Although these comparisons do not necessarily establish that associations are themselves the cause of these differences, the consistent relationship between membership and dynamic, market-adapting behaviors strongly suggests that business organizations have not become a refuge for firms preoccupied by frustrating the growth of markets or modifying their outcomes. Of course, it would be natural to surmise that the relationship between association membership and restructuring behaviors is being driven by some third variable whose influence could be controlled for using regression analysis. For instance, we might expect that enterprise size, shown to be related to association membership, also is related to investment behavior and involvement in international trade.

We thus examine this possibility in a series of probit regressions investigating the correlates of firm restructuring:

$$\Pr(y_i = 1) = \Pr(\beta_0 + \beta_1 BA_i + \beta_2 F_i + \varepsilon_i > 0) = \Phi(\beta_0 + \beta_1 BA_i + \beta_2 F_i), \quad (1)$$

where $y_i = 1$ if the firm engaged in a particular restructuring strategy in the three years prior to the survey; BA_i is a dummy variable that takes on the value of one if the firm reports belonging to at least one business association; F_i represents a vector of other firm-specific variables; and $\Phi(\bullet)$ is the normal cumulative distribution function.

Many of the firm-specific characteristics that we include are typically controlled for in studies of restructuring during the post-communist transition. A number of studies from across the region have highlighted the positive association between restructuring and private ownership, a greater ownership role for outsiders (particularly foreigners) and more robust competition (Djankov and Murrell, 2002). Firm-specific controls thus include subjectively determined measures of both the level of competition faced by the firm over the prior three-year period and the influence exercised by various groups of owners (government bodies, enterprise management, non-management workers, other Russian individuals and firms, and foreigners). We also include a dummy variable capturing whether the firm was created as a *de novo* enterprise, as opposed to having roots in the communist economy. In addition to the control for business association membership, we include a dummy for membership in a commercial group (*e.g.*, a holding company or financial industrial group) hypothesizing that it may facilitate restructuring by reducing inter-firm transaction costs (Perotti and Gelfer, 2001; Hainz, 2005). Additional controls are included for the director's age, the firm's sector as well as for its size (in terms of employment) and capital utilization rate in 2001.

Table 3 presents strong evidence that membership in a business association is strongly and positively associated with restructuring-type behavior even after controlling for other firm characteristics. Over the previous three years, association members were roughly ten percent more likely to have invested in plant and equipment and thirteen percent more likely to have invested both in new technologies and worker training. Finally, they were eight percent more likely to have expanded exports and/or imports. All of these relationships were statistically significant at the 5% level at least.

[TABLE 3]

The findings in Table 3, which highlight the correlates of changes that took place over a three-year period, are reflected in measures of current capital stock quality. Association members utilize technologies that exceed domestic sector averages at almost twice the rate of non-members. Members, moreover, engage in international trade at higher rates. Over one-quarter of members export to the CIS countries and/or other foreign markets, compared to roughly one-sixth of non-members. The disparity is even greater with respect to imports.[30]

The consistency of these results is striking. Clearly, associations' members seem to be engaged in behaviors that suggest greater adaptation to markets than non-members. At least in the context of this stage of the post-communist transition, this finding would seem to call into question Olson's theory that the primary motivation of business associations is to suppress competition and/or push for governmental modification of markets' outcomes.

The strong association between membership and restructuring could be interpreted as a reflection of membership's value. The dissemination of information and knowledge, after all, be it relating to investments in physical or human capital or market opportunities in distant locales, is a role that has been attributed to business associations in other contexts (Doner and Schneider, 2000). But it is also possible that firms of a particular type self-select into associations. That is, the relationships that we observe in Table 3 may be the product not of the association itself but of an unobserved variable that influences both association membership and restructuring strategies.[31] In other words, we still confront the question as to the extent to which the "business association effect" we observe in Table 3 is the result of organized business, *per se*, or the businesses that organize.

One way of addressing this question is through an assessment of associations' activities. In the sections that follow, we present data from the questionnaires directed to the managers of business associations and firms. Most notably, their responses demonstrate that many associations do, indeed, provide services that directly promote the dissemination of technological knowledge, facilitate investment in physical and human capital and reduce the costs of expanding trade ties. Firms and associations, moreover, seem to have similar assessments of the relative importance of different services within the associations' portfolios. These findings strongly suggest that the "business association effect" observed in the regressions above is not brought about exclusively by an unobserved variable that affects the decision to join a business association. The direct effect of association membership, that is, appears to be meaningful.

Innovation and Investment Services

Slightly over half of the two hundred association managers surveyed reported offering services related to innovation and investment in 2001. By 2004, the rate had climbed to nearly two-thirds.[32] The specific services cited by association members can be roughly divided into two types – those that involve the direct provision of information and those in which the association facilitates contacts between and among different economic actors. With respect to the former, roughly half of associations report "providing information about new technologies and equipment," while a third assist in evaluating the effectiveness of new technologies. With respect to the latter, significant percentages of associations report playing roles in organizing and administering exhibitions related to new technologies and in helping to develop collaborative research relationships with foreign and domestic partners.

[TABLE 4]

Associations also facilitate financing of investment by arranging meetings of their members with investors and by providing recommendations for firms seeking financing. In an interview with the author, an officer of the St. Petersburg Union of Entrepreneurs reported how his organization facilitates the functioning of capital markets by helping to mitigate information asymmetries between external investors and member businesses. In particular, he described how foreign investors have approached their association with a general interest in investing in the regional economy but feeling constrained by the difficulties associated with identifying worthy firms. This particular association, founded during the *perestroika* years and having since grown into one of the region's largest, provides consulting services to many of its members, most of which are small and medium-sized enterprises. The association's officers thus get to know the firms well and are thus able to identify for external investors those that are reliable and have good prospects. The reputation capital that a large, well-established organization can put at stake may be sufficient to convince external investors that the incentives of the association to provide reliable information are properly aligned.

Tables 5A and 5B provide confirmation from firms as to the receipt of these types of services. Of association members, 11.5% reported receiving services from associations relating to investment. Of these, the provision of assistance in securing credit by providing a recommendation to an external lender was cited the most frequently. And assistance in the organization of meetings with investors was mentioned, as well, by over one-third of these firms. It is thus perhaps not surprising that of those firms that reported having made investments in the previous three years, members of associations report having utilized financing from a Russian bank at higher rates: 50.9% to 42.0%; non-member firms were more likely to have used retained earnings: 93.0% to 86.7%.[33] This evidence is consistent with the proposition that associations play a role in collecting and disseminating information in a way that mitigates search costs, information asymmetries and contract enforcement problems.[34] With respect to external financing, this may be the result, in part, of some associations formally including as members both manufacturing enterprises and financial institutions. Indeed, of members reporting having invested in their plant in the previous three years, 56.3% of those whose association also included at least one bank as a member received a bank loan.

We should note that Table 5A also reveals that one-fifth of association members that report having received "investment-related" services purportedly received help acquiring financial resources from regional and local budgets. However, among firms that had invested in the previous three years, members of associations were no more likely to have used public resources to finance investment activity.[35] So even though some report that associations facilitate access to public monies, these services do not appear to give member firms any greater access than non-member firms to public financial flows.

[TABLES 5A, 5B and 5C]

Of member firms that report having introduced new technologies and modes of production in the three years prior, 28% report having been assisted by business associations. As can be observed in Table 5B, associations play an important role with respect to organizing and disseminating information on trade fairs and exhibitions. Indeed, in Table 5C we observe that large percentages of both members and non-members learn about new technologies by attending such fairs – with members reporting benefiting from them at a slightly higher rate. Based on the firms' own reporting, associations also directly provide information on new technologies, equipment and materials or they provide consulting services relating to their adoption. Indeed, among firms that had introduced new technologies and production processes, members are much more likely to have learned about them directly from a business association. Non-members, however, do sometimes receive such services as well but at a much lower rate.

We should note here that with respect to offering services to non-members, associations report having adopted different models. Over half (52.9%) provides a greater range of services to members than non-members. And of these, roughly one-half do not provide any services to non-members. The remainder, which include substantial percentages of the regional and local Chambers, formally make the same array of services available to all firms.[36] No matter what the model, however, the prevailing norm is for non-members to pay more.[37] Indeed, in a number of cases, members of some associations receive services at a marginal price of zero, generally if dues payments are current, the firm participates actively in the life of the association or a particular service is deemed critical to the firm's well-being.

As can also be observed from Table 5B, associations play a role in bringing economic actors together, providing assistance both in developing collaborative relations and coordinating joint research. Although there is no evidence that business association members learn about new technologies from their business partners in Russia at greater rates than non-members, Table 5C does show that among those that have introduced new technologies, members are more likely to have benefited from the services of consulting firms and scientific-research institutes. Members are also more likely to benefit from the technological spillovers received from their exposure to foreign firms (either as competitors or business partners).

Training and Recruitment Services

In Table 6, we observe that two-thirds of the associations surveyed report having provided services relating to the training and recruitment of personnel. Well over half offer programs focusing on managers and/or engineers and consider them among the most critical services they offer. A somewhat smaller percentage sponsors programs geared toward skilled workers. As was true of investment and technology-related services, the responses of association managers seem to reflect an assessment that associations are playing an increasingly influential role in the life of firms. More associations, that is, report offering these services at the time of the survey than in 2001. And a greater percentage describes those services as being extremely important to their members. This assessment would seem to be confirmed by the responses of firms. As is laid out in Table 7A, over one-quarter of association members that engaged in worker training in the previous three years relied on associations for some form of assistance in the general areas of either training or recruitment. The associations' managerial training programs were the most popular. But non-trivial numbers reported using associations for training skilled workers as well.

[TABLE 6]

As we see in Table 6, associations' role in helping firms find workers and formally verify their quality is not as great. Roughly a third of the associations provide assistance in recruiting; and just over one-sixth provides assistance relating to worker certification. Moreover, association managers that do provide these services do not seem to consider them as critical to their members as the training programs. Indeed, members themselves confirm that the use of associations for recruitment purposes has not been widespread. Furthermore, it is not clear that members have used associations for this purpose any more than non-members.

[TABLES 7A and 7B]

In many cases, firms that have recently expanded their workforce have relied on other third parties for recruitment (see Table 7B). Roughly one-seventh of association members that fall into this category report having used private employment services when recruiting new managers (or another category of worker), a rate that exceeds that of non-members by a factor of three. Much larger percentages of these expanding firms use government employment centers or informal referrals for recruiting workers of different types.

Trade Promotion Services

We lastly turn to the manner in which associations may be facilitating the development of new trade relationships, both with customers and suppliers. As we noted earlier, association members are more likely to interact with trade partners outside their immediate locale, both domestically and abroad. And just within the past three years, business association membership was shown to be strongly associated with having developed new trade ties with either CIS or non-CIS countries. In the survey given to associations, we observe that nearly three quarters offer some combination of services relating to marketing new products.

[TABLE 8 and TABLE 9]

As was true for the dissemination of information on new technologies, associations' role in organizing and publicizing trade fairs and exhibits would appear to be of some importance to the exchange of goods and services. Indeed, associations seem to consider these services among the most critical that they offer to their members (see Table 8). Firms, moreover, confirm their value. As we can observe in Table 9, of those members that have directly received marketing-related services from associations, nearly one-half (44.1%) had received information from associations on trade fairs and exhibits and a similar percentage (39.7%) benefited directly from their assistance in organizing them. As is evident in Table 10, large percentages of non-members participate as well in these events. Although association members report relying more heavily upon them to find new customers, relatively equal numbers of members and non-members use them to find new suppliers.

In addition to their trade fairs, which act as a hub bringing together buyers and sellers often from distant locales, associations facilitate firms' search for new trade partners by directly disseminating information on specific actors and general market conditions. Roughly half of associations, for instance, report providing services related to "market research" and, more specifically, to production, pricing and demand conditions in output markets. Roughly half of associations, as well, offer direct assistance in the search for new clients, both foreign and domestic. Table 9 demonstrates that non-trivial numbers of firms are consumers of these services. And Table 10 shows that roughly 10% of all firms identify new customers and suppliers with information directly received from business associations.

[TABLE 10 and TABLE 11]

In addition, some of the information services that associations provide are designed to mitigate problems of identifying both the quality of goods and the reliability of prospective trade partners. As we see in Table 8, a number of associations try to address potential customers' difficulties with verifying the quality of goods and services by providing informal consulting services or more formal certification services. In an interview with the author, an official at the Chamber of Commerce and Industry of the Russian Federation described product certification as the most important service provided by the network of Chambers throughout the country.

Over half of the associations reported providing information on the reliability of prospective trade partners. As we can see in Table 11, these services are either made available to or accessed by association members to a much greater extent than non-members.[38] Whereas members and non-members both use business associations to identify new customers in relatively large numbers, only the former seem to have access to associations for information about trade partners' prospective reliability. This finding is at least suggestive that this sort of information may be used as a "selective incentive" to motivate members' support of other, more broadly accessible services.

In resolving problems of identifying both the coordinates and reliability of potential trade partners, we observe that firms also rely upon other third parties as informational intermediaries. In this respect, we see that members of business associations are a bit more likely to rely upon banks to help assess potential partners' reliability. This finding is consistent with evidence presented earlier that association members have privileged access to banks for financing, possibly because banks are often, themselves, members of associations. We further observe in Table 11 that although a number of firms continue to rely upon government officials to mitigate information problems in markets, members and non-members do not appear to differ with respect to access to them.

Enterprise Performance

So far we have only considered the relationship between business associations' services and enterprise behavioral strategies without addressing whether or not those services, supplied disproportionately to members, have a disproportionate impact on members' performance. Although it is possible that the investment and knowledge dissemination that associations have promoted over the three year period may not appear in contemporaneous performance data, we nevertheless think it useful to call attention to the survey's rather blunt measures of economic success. Of association members, 72.0% and 71.5% report an increase in output and sales, respectively, over the previous three years, compared to only 57.8% and 63.0% among non-members. And whereas 25.9% of association members note a significant improvement in financial performance over the same period, only 18.2% of non-members did.[39] However, when these three measures of performance are included as dependent variables in the same models considered earlier, Table 12 shows that association membership is positively and significantly associated only with output growth. Although the coefficient on the association dummy is positive in the cases of sales and financial improvement, the results are not statistically significant.

Several points should be made about these results and how they compare with those presented in Table 3. The behaviors that our evidence suggests are promoted by association membership generally relate to investments that may only bring a return with the passage of time. A firm that has recently introduced a new production technology, which it learned about at an association-sponsored trade fair, may, for instance, wait several years before sales and/or profitability are affected. So the stronger relationship between membership and an investment strategy within a limited time frame is not necessarily surprising. But even to the extent we do observe a statistically significant and positive relationship between business association membership and output, we should be cautious in the interpretation. By itself, of course, it is not evidence of a causal relationship. However, given the evidence that associations do provide services that would seem to promote business development, it is not unreasonable to suppose that the performance-related impact of joining the association is not trivial.

[TABLE 12]

Perhaps most importantly, however, the weaker association of membership and performance measures (as opposed to behavioral strategies) does not undermine the main point that the Olsonian perspective on collective action in the business community is misplaced. Whether businesses organize more to redistribute rents or more to alleviate market failures, their ultimate objective (*i.e.*, their maximand) may well be the same. What would differ, however, would be the strategies employed in achieving that objective. So, if Olson's perspective is inappropriate and collective action in the post-communist business community has many socially beneficial purposes, we might expect to see the effects of association membership reflected more strongly in firms' actions than in their performance.

Discussion

Earlier, we suggested that organizations for collective action in the business community could be thought of as residing somewhere in a two-dimensional space in which one axis measures the resources they devote to the preservation and/or redistribution of rents, while the other measures the resources given over to the generation of new wealth. If our desire, effectively, is to situate the community of business associations within this space, we should clarify that our interest is in accounting for their effect relative to a world in which businesses still may communicate and cooperate informally. Some of what associations do, after all, may merely subsume activities that would have occurred otherwise, but more informally. But we are aware of no research that carefully addresses this net impact of association activity, either in the post-communist context or elsewhere. Ultimately, as well, we would like to address the factors that determine the location of individual associations within this *associational space*. There may, after all, be reasons for policy to facilitate (or inhibit) the organization of some interests, but not others. Here in this article, however, the objectives have been more modest. That is, we have primarily sought to address two misconceptions about the location of the organized business community within associational space.

The first misconception – that post-communist business associations are weak and ineffective – has been both implicit in the lack of attention that they have received in the social science literature on Eastern Europe and the former Soviet Union and explicit in much of the analysis that has addressed their impact there. One of the most convincing pieces of evidence that this is not the case in Russia is that a large number of firms have voluntarily joined their ranks, with the rate of inflow appearing to have increased in recent years. Many, moreover, report receiving services, a portion of which are highlighted in this article, that seem to have at least some positive impact on their behavior. In short, their responses make explicit and their willingness to absorb dues, fees and voluntary contributions implies that they have generally benefited from their association with an association.

The precise nature of that benefit goes to the heart of the second misconception. Mancur Olson's vision of associations as organizations that provide value to their members primarily through wealth redistribution instead of wealth generation does not fare well in the face of the evidence from Russia. *The Rise and Decline of Nations* clearly points to the conclusion that the social impact of formalized collective action in the business community is negative. He argues that they are hostile to free trade; he concludes that they inhibit the introduction and dissemination of new technologies; and by investing resources in lobbying and, potentially, the organization of cartels, he implies that, *ceteris paribus*, they devote fewer resources to investments in human and physical capital. *Power and Prosperity* (2000) then argues that this analysis holds particular relevance for the post-Soviet world. We find, however, that judged on the basis their members' actions, the associations that have emerged in Russia do not resemble what Olson envisioned. In recent years, their members have expanded their trade contacts and invested in new technologies, capital upgrades and worker training at rates that exceed those of non-members.

As was noted, this finding may either be a function of some unobserved feature(s) of the firms themselves or of the direct impact of membership. Although survey evidence suggests that to at least some degree membership matters, the critique of the Olsonian framework's application to Russia is not contingent on this being the case. Let us accept, for the sake of argument, that the differences in behavior between members and non-members are not the direct result of the business organizations' activities but rather of some unobserved difference in the types of firms that choose to join. If this were indeed the case, it seems quite unlikely that firms that are more interested in pursuing market-adapting strategies would join organizations – of the sort postulated by Olson – that are fundamentally hostile to them.

By way of conclusion, at least two important caveats are in order. First, it is possible and perhaps even probable that our findings are sensitive to the conditions prevailing in the period leading up to the survey. The past half-decade in Russia has been characterized by stability and growth, much unlike the first seven or eight years of the post-communist era. One can well imagine how this may have increased the returns from collective action to support restructuring and wealth creation relative to the returns from collective action to support wealth redistribution. Stability and growth, after all, should lengthen effective time horizons and increase the expected gains from investing in market-adapting behavior and market-supporting institutions.

Second, the fact that associations engage in a number of activities that would appear to be net welfare enhancing does not preclude their involvement in others whose social impact is less benign. This article deliberately focused on portions of the surveys dealing with the former rather the latter. Nevertheless, some of the evidence that was brought to light suggests that Russian associations, on average, are not engaged in or are not effective at the sorts of activities highlighted by Olson. For one, we found that associations generally do not erect exclusionary barriers, suggesting that membership, at least, is not a tool to suppress competition. Members, moreover, do not on average confront output markets that are any less competitive than non-members (see Table 2). Association members, we observed, are no more likely to have received public financing for their investment projects or used government employment centers to find new workers. Finally, as noted in Tables 10 and 11, non-members are no less likely to have used governmental bodies to identify new trade partners or learn of their reliability. In short, the evidence does not suggest that associations are being used to provide their members with disproportionately more access to publicly distributed resources. This tentative finding may, at least in part, be a function of the opportunities and desirability to access such resources through alternative, less formalized channels. All that said, however, the choice not to make either the suppression of competition or the search for rents the focus of our study here means that we are not yet able to situate Russia's organized business community precisely within *associational space*.

These caveats both suggest directions for future research and clarify the article's main message. Survey responses from firms and associations alike suggest that business associations have become economic actors of consequence in post-communist Russia; in no small part, this is because they offer services broadly supportive of economic restructuring.

Figure 1. Membership rates by sector and size

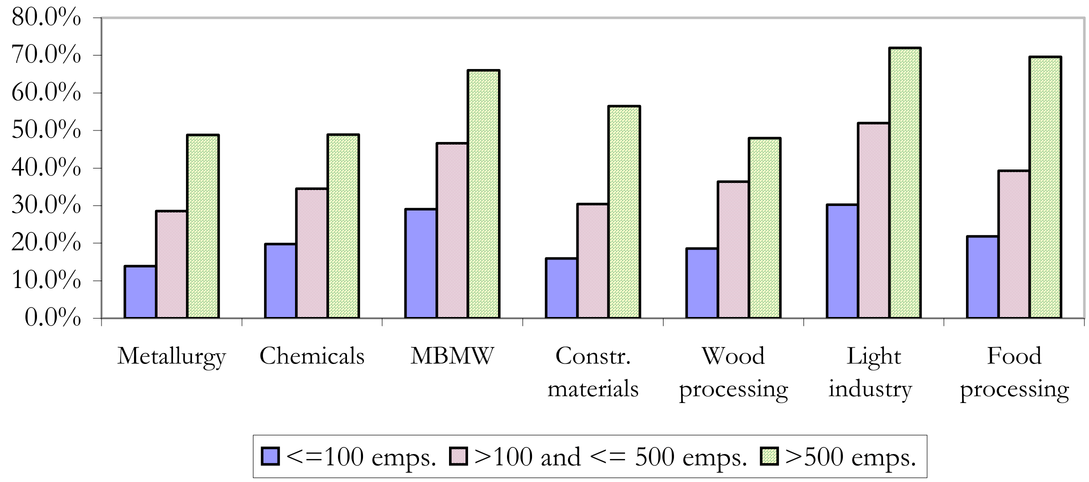

Table 1. What are the two most important associations to which you belong?

	% of all associations mentioned	
Russian Union of Industrialists and Entrepreneurs (*RSPP*)	12.8%	
Regional		9.8%
Territorial		3.0%
Chambers of Commerce and Industry (*TPP*)	35.2%	
Regional		27.9%
Territorial		7.4%
Multi-Sector*	21.9%	
All-Russian		5.7%
Regional		11.5%
Territorial		4.6%
Sector	26.5%	
All-Russian		12.8%
Regional		8.7%
Territorial		4.9%
Other or no type specified	4.1%	

* Not including *RSPP* and *TPP*.

Figure 2A. Year in which association founded

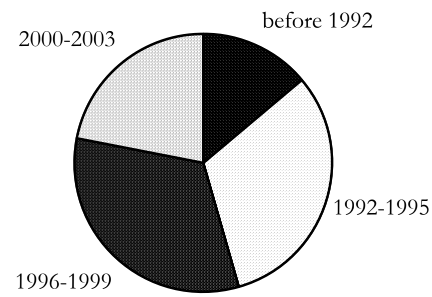

Figure 2B. Year in which association joined

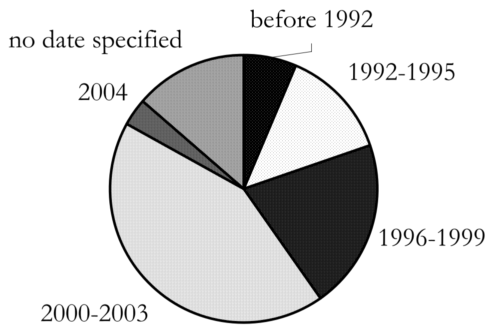

Table 2. Behavioral strategies and characteristics of non-members and members

	Non-members	Members	
Provided (re)training of personnel in past 3 years (%)	71.5	87.9	**
Expanded activity in foreign markets in past 3 years + (%)	17.1	30.5	**
Invested in plant & equipment (construction, capital repair) in past 3 years (%)	61.4	77.9	**
New technologies/modes of production introduced in past 3 years (%)	66.3	82.9	**
Member of commercial group (*e.g.*, *FIG*, *holding*, *etc.*) (%)	19.0	25.0	
De novo enterprise (%)	42.0	35.0	
Employees	360.2	811.1	**
Capital utilization rate (%)	68.2	69.4	
Level of competition (index over 3-year period) ++	3.86	3.87	
Age of director	47.5	49.6	*

+ Increased purchases or sales in either the CIS countries or elsewhere

++ Measure on 1-5 scale, with 5 representing intense competition

** Using chi-square test of association or t-test on equality of means, difference significant at 1% level; * at 5% level.

Table 3. Restructuring behaviors during previous three years

	Invested in plant and equipment (*e.g.*, capital repair)	Invested in new technology /modes of production	Invested in worker training	Expanded trade relations with CIS or foreign countries
Member of business association	0.098**	0.132***	0.131***	0.080**
	(2.21)	(3.26)	(3.69)	(2.02)
Member of commercial group (*e.g.*, *FIG*, *holding*, *etc*.)	0.032	0.130***	-0.006	0.040
	(0.60)	(2.77)	(0.12)	(0.86)
De novo enterprise	0.073	0.143***	-0.042	0.093**
	(1.50)	(3.27)	(1.07)	(2.03)
Log employees (2001)	0.084***	0.068***	0.049***	0.091***
	(4.68)	(4.07)	(3.30)	(5.88)
Capital utilization rate (2001)	0.000	-0.000	0.001	-0.000
	(0.63)	(0.05)	(0.82)	(0.48)
Level of competition (index of average over period)	0.032	0.016	-0.016	0.017
	(1.58)	(0.87)	(0.94)	(0.92)
Age of director	-0.006***	-0.003	-0.003**	-0.005***
	(3.05)	(1.64)	(2.01)	(2.65)
Ownership controls	Yes	Yes	Yes	Yes
Sector controls	Yes	Yes	Yes	Yes
Prob > chi2	0.0000	0.0000	0.0000	0.0000
Number of observations	536	533	536	521
Pseudo R-square	.1780	.1000	.1567	.1613

Table 4. Services related to innovation and investment

	% of associations		How important to members (1-5 scale)	
	2001	2004	2001	2004
Did / does your association offer any services related to innovation and investment?	54.5	66.5		
Did / does your association provide any of the following services?				
Provide information about new technologies and equipment	45.5	54.0	3.8	4.2
Assist in organizing and administering exhibitions relating to new technologies	40.0	48.0	3.8	4.1
Assist in developing collaborative relationships with Russian and foreign firms engaged in innovative activities	39.5	47.5	3.7	4.0
Assist in evaluating effectiveness and new technologies	30.0	35.5	3.7	4.0
Provide consulting services relating to application of new technologies, equipment, etc.	31.0	35.0	3.7	3.9
Assist in joint research and development projects	24.5	28.5	3.6	3.9
Provide assistance in receiving credit (provide collateral, recommendation, etc.)	28.0	37.0	3.6	4.1
Assist in accessing resources from local and regional budgets for enterprise development	29.5	36.5	3.6	4.0
Organize mutual crediting	13.0	16.5	3.0	4.0
Assist in attracting investment (Russian and foreign) by organizing bilateral meetings of businesses and investors, etc.	35.5	45.5	3.8	4.2

Table 5A. Investment-related services received from business associations

	Of firms that invested in past 3 years
Business association members that have used associations to receive investment-related services	11.5
Of those that used associations' services, percentage that used them for	
Providing collateral or recommendation to secure credit	44.0
Assisting in the organization of meetings with investors	36.0
Providing general consulting services related to investment activity	24.0
Helping acquire financial resources from regional and local budgets	20.0

Table 5B. Innovation-related services received from business associations

	Of firms that introduced new technology /modes of production in past 3 years
Business association members that have used associations to receive innovation-related services	28.0
Of those that used associations' services, percentage that used them for	
Information on trade fairs, exhibits	78.5
Assisting in organization of and participation in trade fairs, exhibits in Russia an abroad	40.0
Assistance in developing collaborative relations with Russian and foreign enterprises to develop new equipment, materials, modes of production	24.6
Assistance in evaluating effectiveness of new innovations	12.3
Consulting with respect to adapting new technologies	18.5
Help in coordinating joint research	21.5
Information on new technologies, equipment and materials	46.2

Table 5C. How, in general, do specialists at your firm learn about new technology, equipment and modes of production (if invested in past 3 years in new technology)?

	Non-members	Members	
Trade fairs and exhibitions	80.1	87.1	*
Russian business partners	63.4	60.3	
Foreign business partners	18.5	35.3	**
Scientific/research institutes, laboratories with which collaborate	23.1	39.2	**
Business associations	6.5	22.8	**
Consulting firms	3.2	9.1	*
Russian competitors (*e.g.*, when see their output)	35.6	44.0	
Foreign competitors (*e.g.*, when see their output)	12.0	25.0	**
Specialist journals and internet	75.5	81.9	

** Difference significant at 1% level; * significant at 5% level.

Table 6. Services related to training and recruitment of personnel

	% of associations		How important to members (1-5 scale)	
	2001	2004	2001	2004
Did / does your association offer any services related to training and recruiting personnel?	56.5	65.5		
Did / does your association provide any of the following specific services?				
Assistance in (re-) training of specialists (engineers, managers, *etc.*)	49.5	56.5	3.9	4.3
Assistance in (re-) training of skilled workers	33.5	40.5	3.6	4.0
Assistance in the selection/recruitment of personnel	30.5	36.0	3.3	3.9
Certification of personnel	16.0	19.5	3.4	3.7
Conducting seminars for the staff of business (workers) associations	41.0	50.0	3.9	4.3

Table 7A. Training and recruitment-related services received from business associations

	Of firms that invested in worker training programs within past 3 years
Business association members that have used associations to receive training and recruitment-related services	20.4
Of those that used associations' services, percentage that used them for	
Assistance in organizing training of specialists (engineers, managers)	79.6
Assistance in organizing training of skilled workers	42.6
Assistance in recruitment / selection of personnel	20.4
Certification of personnel	25.9

Table 7B. What mechanisms have you used to hire workers (if workforce has expanded in past 3 years)?

	Managers		Technical personnel / engineers		Skilled workers		Unskilled workers	
	Non-	Member	Non-	Member	Non-	Member	Non-	Member
Independently through enterprise's personnel office	19.8	25.3	30.2	38.5	52.1	53.8	46.9	60.4 *
Government employment centers	15.6	15.4	20.8	30.8	39.6	41.8	37.5	45.1
Private employment services	4.2	14.3 *	5.2	16.5 *	6.3	16.5 *	2.1	12.1 **
Business associations	0.0	4.4 *	1.0	2.2	2.1	2.2	0.0	3.3
Advertisements using mass media ("want ads")	24.0	23.1	30.2	40.7	45.8	52.7	37.5	46.2
Informal recommendations	43.8	46.2	58.3	50.5	52.1	48.4	36.5	30.8
Didn't recruit worker type	26.0	25.3	10.4	12.1	3.1	4.4	8.3	4.4

** Difference between members and non-members significant at 1% level; * significant at 5% level.

Table 8. Services related to market research and establishing new exchange relationships received from business associations

	% of associations		How important to members (1-5 scale)	
	2001	2004	2001	2004
Does (did) your association offer any services related to market research?	61.0	71.0		
Does (did) your association provide any of the following market-research related services?				
Market research	39.0	44.0	3.9	4.2
Information on prices and production in various markets	50.5	60.0	4.0	4.2
Information on demand conditions in foreign and domestic markets	46.5	54.0	3.9	4.1
Assistance in search for Russian clients	48.0	58.5	3.9	4.1
Assistance in search for foreign clients	40.5	48.0	3.8	4.0
Information on trade fairs and exhibits	56.5	66.5	4.2	4.5
Assistance in organizing and participation in trade fairs and exhibits	54.5	63.5	4.3	4.5
Assistance in placing ads (on association website, in its journals, *etc.*)	46.0	57.5	4.0	4.3
Does (did) your association provide other services related to establishing new exchange relationships?				
Information on reliability of prospective trade partners	43.5	52.0	3.9	4.2
Certification of goods and services	28.5	31.5	4.1	4.2
Assistance in evaluating quality of goods and services	34.5	37.5	4.0	4.4
Consultation on entering into contracts	36.5	39.5	3.7	4.1

Table 9. Marketing and sales-related services received from business associations

Business association members that have used associations to receive marketing and sales-related services	24.3
Of those that used associations' services, percentage that used them for	
Market research	33.8
Information on prices and production in various markets	41.2
Information on demand conditions in foreign and domestic markets	19.1
Assistance in search for Russian clients	30.9
Assistance in search for foreign clients	7.4
Information on trade fairs and exhibits	44.1
Assistance in organizing and participation in trade fairs and exhibits	39.7
Assistance in placing ads (on association website, in its journals, *etc.*)	33.8

Table 10. Which of the following mechanisms do you use for finding new customers and suppliers?

	Customers			Suppliers		
	Non-members	Members		Non-members	Members	
Participation in trade fairs and exhibitions	44.5	57.6	**	47.2	51.5	
Advertisements	58.0	60.6		54.7	53.2	
Business associations	7.4	12.8	*	9.0	12.9	
Support of ministries and other governmental bodies	12.3	8.4		8.3	7.1	
Participation in tenders and competitions	37.5	37.3		27.5	26.8	
Approaching prospective trade partners directly	64.8	65.3		73.8	67.3	
Approaching personnel of other enterprises that may have information	49.2	47.8		58.5	49.6	*
Conducting market research	45.5	50.7		33.0	41.5	*

** Difference significant at 1% level; * significant at 5% level. Firms were asked to rank on a scale of 1-5 the importance of the various mechanisms (with 5 representing "extremely important"); a response was considered positive if the respondent ranked it as "4" or higher.

Table 11. To whom do you turn (if anybody) to receive information on the reliability/reputation of potential customers and suppliers?

	Customers			Suppliers		
	Non-members	Members		Non-members	Members	
Directly to personnel of other enterprises that may have information	70.4	68.1		77.3	77.9	
Business associations	2.7	18.5	**	3.7	20.2	**
Private marketing/consulting firms	12.7	12.1		12.0	12.8	
Banks	17.9	27.0	*	11.3	17.4	*
Government officials	24.4	27.4		21.0	20.2	
Other	12.0	13.3		9.3	11.6	

** Difference significant at 1% level; * significant at 5% level.

Table 12. Performance during previous three years

	Output grew	Sales grew	Financial performance greatly improved
Member of business association	0.105**	0.052	0.060
	(2.37)	(1.15)	(1.61)
Members of commercial group (*e.g.*, FIG, holding, etc.)	0.123**	0.106**	0.158***
	(2.31)	(1.98)	(3.41)
De novo enterprise	0.023	0.049	0.073*
	(0.46)	(0.98)	(1.71)
Log employees (2001)	-0.005	0.008	0.023
	(0.30)	(0.44)	(1.60)
Capital utilization rate (2001)	0.000	-0.000	-0.001
	(0.08)	(0.07)	(1.05)
Level of competition (index of average over period)	-0.025	-0.012	-0.033**
	(1.22)	(0.56)	(2.04)
Age of director	-0.004**	-0.007***	-0.007***
	(2.27)	(3.35)	(3.72)
Ownership controls	Yes	Yes	Yes
Sector controls	Yes	Yes	Yes
Prob > chi2	0.0035	0.0078	0.0000
Number of observations	528	526	532
Pseudo R-square	.0704	.0677	.1388

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[2] A particularly noteworthy exception is Frye's study (2000) of self-governing organizations in Russia's nascent commodity, currency and stock markets.

[3] Not surprisingly, this general perspective was espoused in the Soviet Union as well. The entry on business associations (*союзы предпринмателей*) in *The Great Soviet Encyclopedia* (1976) describes them as "bourgeois organizations that unite capitalists … so as to increase profitability, trample the rights of workers, do battle with foreign competitors, and manipulate foreign and domestic policies in the interests of monopolistic capital."

[4] It would be wrong to argue, however, that Olson never recognized that such organizations could "mak[e] the pie that society produces larger." Although he downplays this point in *The Rise and Decline of Nations*, in *The Logic of Collective Action* (1965) he describes how many interest associations endure by providing "selective services," some of which may be by-products of their lobbying activity and could be construed as net welfare enhancing: His later research, however, makes clear that he feels that any social welfare gains associated with these activities are swamped by the social losses associated with rent-seeking.

[5] Just as Olson (1982) argued that a cataclysmic event like a world war could greatly weaken a country's interest coalitions and thus pave the way for subsequent growth, his later work (2000) traces the roots of China's impressive growth record during the last two decades of the twentieth century to Mao's Cultural Revolution, which destroyed "the countless cliques engaged in covert collective action and other insider lobbies."

[6] Olson's point here echoes an argument made by Wilson (1973) about the provenance of business organizations in the United States. Wilson points out that the periods of high growth in organized business activity coincide with the rise of both organized labor and government antitrust activism at the turn of the century and later during the Great Depression. In other words, business organizations grow up during periods when rents are threatened. Unger and van Waarden (1999) make a similar point on the basis of the Dutch experience.

[7] Olson does specifically reference the rent-seeking efforts of Civic Union, a party closely associated with the Russian Union of Industrialists and Entrepreneurs, an association of "red directors" who lobbied for various forms of subsidies in the first half of the 1990s.

[8] Although not the focus of his article, Frye (2002) presents evidence that membership in a Russian business association is strongly associated with success in influencing legislation at the regional and local levels.

[9] Some lobbying activity, as well, may produce changes in public policy that are socially beneficial.

[10] Hendley *et al.* (2000) note, for instance, that although 28% of the enterprises they surveyed in 1997 reported belonging to a business association, only 3.5% used them to check on the reliability of potential customers; similarly, a small percentage of firms reported relying on associations' services to resolve transactional problems.

[11] The authors clarify that these strategies are not mutually exclusive; rather a firm will choose to invest in the two such that their marginal returns are equal. Initial conditions, however, predispose many firms to concentrate almost exclusively on one activity or the other.

[12] Gaddy and Ickes suggest that this strategy has become the foundation of a "virtual economy" in which a large "value subtracting" segment of the economy is propped up through a web of subsidies, which ultimately emanate from the country's large energy sector.

[13] The authors define networks as a hybrid organizational form between hierarchy and market in which either capital or trade based ties among firms create a set of connected exchange relationships that control business activities.

[14] Perotti and Gelfer (2001) are somewhat ambivalent in their assessment of where financial industrial groups (FIGs) should be placed within this two-dimensional space. They present data suggesting that bank-led FIGs reallocate capital away from their cash-rich enterprises in a manner suggestive of an internal capital market. They acknowledge, however, being unable to distinguish whether these flows represent a type of collective solution to institutional deficiencies (*e.g.,* problems of contracting and informational asymmetries) that produces a more efficient allocation of resources or a mechanism for majority shareholders to extract rents from cash rich firms.

[15] Lehmbruch's (1999) comprehensive study of the trade associations in the timber industry acknowledges their role in providing informational and consulting services to members but argues that they primarily served as vehicles for maintaining access to public officials in the inter-firm competition for rents.

[16] In an interview with the author, the Director of the Department for Cooperation with Business Associations at the Chamber of Commerce of the Russian Federation commented that there may be as many as 5000 different business associations registered across Russia. With the exception of the Law "On Chambers of Commerce and Industry," there is no encompassing legal framework regulating associations' registration and activity. They may register at the federal or sub-federal levels as one of four organizational-legal forms: public organization (*общественная организация*), non-commercial partnership (*некоммерческое партнерство*), association (or union) (*ассоциация* (*союз*)), or chamber of commerce (*торгово-промышленная палата*). All-Russian "public organizations" must register with the federal Ministry of Justice but their inter-regional, regional and local counterparts register with the Ministry of Justice offices in the relevant federal subject. *Oblast* and territorial Chambers of Commerce follow a similar pattern. Other associations register with authorized state agencies in the jurisdiction in which they operate. Depending upon the legal status under which they register, business associations may face entirely different restrictions upon their activity. Those registered as associations or unions, for instance, cannot offer services for a fee, leaving their financing almost exclusively dependent on member dues. The members of associations registered as public organizations cannot be juridical persons unless they themselves are public organizations. And members of unions or associations cannot be physical persons if they are not founders of the association. Currently, the non-commercial partnership organizational form offers the legal framework most conducive to growth and, indeed, has become the most popular form in which to register (*Rossiiskiie obedineniia predprinimatlei*, 2001).

[17] The Levada Analytical Centre administered each of the surveys.

[18] For those with more than one hundred employees, we surveyed equal numbers across sectors. But within each sector, we sought the distribution with respect to employment represented in the national firm registry supplied by *Goskomstat*. For instance, the same numbers of firms were surveyed in the chemical and metallurgical industries but the latter group included a relatively higher proportion of enterprises with over 500 employees. Using local business registries, firms were then selected at random to fulfill the regional, sector and size quotas.

[19] Just 1.2% reported belonging to more than two. Of the private firms, 35.0% belong to at least one association; the membership rate of the state or municipally owned enterprise was less, 23.9%.

[20] So, for instance, the ratio of members to non-members in the sample was relatively high in light industrial firms with over 500 employees and relatively low in those with under 100 employees in the metallurgical sector. To fulfill the regional, sector, size and association membership quotas, firms were selected for this survey at random from the participants in the initial screening survey. In the event of a refusal, another firm with similar characteristics was selected from the screening survey to replace it. And

if no firms remained that matched the required characteristics, the surveying organization randomly selected firms on the basis of lists compiled from alternative sources of information. In all, 506 firms from the original screening survey responded to the large questionnaire; the remaining 100 were drawn from other sources. The participation rate among those firms that had been in the screening survey was 68%; for those selected from outside the context of the screening survey, the rate was 42%.

[21] Density refers to the extent to which the association's membership includes all firms in a particular sector, geographic region, *etc*. For example, for a sector-specific business association, one measure of density would be the share of total output in the sector accounted for by members.

[22] The construction of the sample was carried out in association with personnel at the Coordinating Council of Employers' Associations of Russia, an association of Russian business associations. Online and published sources were used as well as consultations with experts inside the community of business associations.

[23] The final breakdown was as follows: 131 multi-sector associations with 73 of these operating at the level of a territorial subject (republic, *krai*, *oblast'*, *etc*.), 53 at the more narrowly defined "territorial" level (city, *raion*, *etc*.) and 5 encompassing the entire Federation; of the 69 sector-specific associations, 39 operate at the federal level and the remainder within lower-level jurisdictions.

[24] A small number of firms in the survey were "enterprises without the creation of a juridical person."

[25] Two-thirds of these firms were members of at least one association at the time of the survey.

[26] This metric offers only an imperfect picture as to inflow dynamics. Because we neither observe firms nor associations that no longer exist, our measure as to inflows is downwardly biased the further in the past we look.

[27] This finding is at odds with Wilson's observation (1973) based on data from the United States that net flows into associations are counter-cyclical. The recent upward spike in membership appears particularly characteristic of sector-specific associations; over half of the respondents that reported belonging to one have joined since 2000.

[28] Organizations, it is true, may amount to more than the sum of their parts. The motivation and objectives of member businesses conceivably could differ from association's management, particularly if membership is somehow compulsory (Moore and Hamalai, 1993). For voluntary associations, many of which continue to attract new members, this does not seem as likely.

[29] These behaviors, incidentally, closely resemble those that Gaddy and Ickes (2002) contend characterize the firms that comprise the value-destroying segment of the Russian "virtual economy."

[30] At the time of the survey, greater percentages of members reported selling their output to (72.1% compared to 57.4%) and purchasing inputs from (73.6% compared to 50.9%) trade partners in the national market outside their immediate locale.

[31] In more technical terms, we may be confronting selection bias – *i.e.*, when the regressor is correlated with the residual term. If this is the case, then any regressor correlated with the unmeasured factor will end up proxying for it.

[32] Note that the increase in the rate of associations offering these services may be a product of the way in which the sample was created as much as, or perhaps more than, it reflects an overall trend in business association activity. That is, an effort was made to include only those associations among the most active in 2004. If the survey had been conducted in 2001 and a similar criterion had been used, we may have observed rates of service provision more like those found for 2004.

[33] Both these differences are significant at the 10% level. Gaddy and Ickes (2002) argue that the value subtracting enterprises in the "virtual economy" choose to be less transparent in their operations, making them less likely recipients of external finance than enterprises that have adapted to the market.

[34] Macaulay's seminal work on relational contracting (1963) notes associations' important role in improving such information flows in the United States.

[35] Of association members that had engaged in capital repairs over the previous three years, 6.9% report receiving financing from regional or local "organs of power." The comparable figure for non-members is 7.0%.

[36] A small number of respondents to our survey reports not offering services.

[37] Of those that report servicing non-members, roughly one-third of the services they provide, on average, are extended to non-members.

[38] A relatively large number of respondents noted turning to parties other than those listed. Roughly half of these responses were either a variant of "our own protection service" or "we have our ways."

[39] All reported differences were significant at at least the 5% level. Managers were asked to assess their financial performance over the previous three years on a 1-5 scale, with a response of 5 representing a significant improvement.