

STATE UNIVERSITY
HIGHER SCHOOL OF ECONOMICS

Centre for Advanced Studies

Andrei Yakovlev

**THE RUSSIAN CORPORATION
AND REGIONAL AUTHORITIES:
MODELS OF INTERRELATIONS
AND THEIR EVOLUTION**

WP13/2007/14
Series WP13
CAS Working Paper Series

Moscow
Publishing House of SU HSE
2007

УДК 934.76 (470 + 571)

ББК 65.050

Y 14

Редактор серии WP13
«Научные доклады Института фундаментальных
междисциплинарных исследований»
(CAS Working Paper Series)
М. Гилман

Y 14 **Yakovlev A.** The Russian Corporation and Regional Authorities: Models of Interrelations and Their Evolution. Working Paper WP13/2007/14. — Moscow: State University — Higher School of Economics, 2007. — 24 p.

Relations between enterprises and authorities in Russian regions have attracted the attention of many researchers since the mid-1990s. At present, the issues raised by these relations are just as urgent as before because of two current trends.

On one hand, growing pressure from the global market is an objective reason for the business community in Russia to seek government support. However, after the Yukos affair Russian business in general found itself subjugated to the federal authorities. For this reason, Russian companies may be expected to more closely cooperate with regional and local administration in pursuit of more favorable conditions for business.

On the other hand, the Russian fiscal system was reformed and authority between the federal center and the Russian regions were redistributed so that the budgets of regional governments were reduced and their liabilities remained almost unchanged. Thus, regional authorities may in turn have incentives to change their policy posture towards the business community.

In this paper we will use the results of a new empirical study of Russian joint stock companies to assess the extent to which these two trends affected the real mechanisms of interaction between businesses and the state on the regional level.

УДК 934.76 (470 + 571)

ББК 65.050

Andrei Yakovlev — Director, Institute for Industrial and Market Studies State University — Higher School of Economics.

Яковлев А.А. Российская корпорация и региональные власти: модели взаимоотношений и их эволюция: Препринт WP13/2007/14. — М.: ГУ ВШЭ, 2007. — 24 с.

Проблемы взаимоотношений между предприятиями и властями в регионах России остаются по-прежнему актуальными в связи с двумя тенденциями. С одной стороны, растущее давление конкуренции со стороны глобального рынка объективно порождает спрос со стороны бизнеса на государственную поддержку. Однако в России на федеральном уровне после дела ЮКОСа бизнес в целом оказался в подчиненном положении по отношению к власти. Поэтому возможно более интенсивное взаимодействие российских компаний с региональными и местными властями — в поисках более благоприятных условий для ведения бизнеса. С другой стороны, федеральная реформа привела к сокращению финансовых возможностей региональных властей — при одновременном сохранении за ними большей части их прежних обязательств. В этих условиях у региональных властей в свою очередь могут возникнуть стимулы к изменению политики по отношению к бизнесу.

В настоящей статье, опираясь на данные нового эмпирического исследования российских АО, мы попытаемся оценить, в какой мере эти тенденции повлияли на реальные механизмы взаимодействия между государством и бизнесом на региональном уровне.

Препринты ГУ ВШЭ размещаются на сайте:
<http://new.hse.ru/C3/C18/preprintsID/default.aspx>.

© А. Yakovlev, 2007

© Оформление. ГУ ВШЭ, 2007

1. Models of Interaction between the State and Businesses in Russia*

There are two related lines of enquiry that can be found in the studies of interaction between the government and the business community in Russia carried out in the late 1990s and early 2000s. The first line discusses seeking and receiving rent by various agents acting for businesses or for the state, and the second line deals with the opportunities and prospects for the implementation of industrial policy.

In the first line of studies, the best-known model was formulated by Joel Hellman and his colleagues [Hellman et al, 2000] and later continued in the studies at the CEFIR [Slinko, Yakovlev, Zhuravskaya, 2005]. This model describes the so-called phenomenon of “state capture”. This model is appropriate when the state is too weak to withstand the influence of private interest groups. Consequently, this model involves the active redistribution of resources from the state to specific companies or business groups. The validity and relatively wide applicability of this model in Russia and the CIS countries with regard to large corporations was proved by a number of empirical studies in the late 1990s.

This model of rent-seeking behavior was, in a sense, completed with the formulation of the “grabbing-hand model” by T. Frye and A. Shleifer for Russia, in contrast to the “helping-hand model” that had been developed in a variety of forms for describing Central and Eastern Europe and China ([Frye, Shleifer, 1997]). The “grabbing-hand model” implies the creation of artificial barriers to doing business, which forces entrepreneurs, mostly small and midsize, to bribe bureaucrats. In the absence of effective mechanisms for upholding the law, overregulation generated a process of negative selection among enterprises and pushed their businesses into the shadow economy ([Johnson, Kaufman, Shleifer, 1997]); [Yakovlev, 2002]). Meanwhile, even in the absence of an effective legal system, widespread informal relations in the business community enabled the authorities to impose selective sanctions on companies that attempted to resist government pressure.

For the early 2000s, given the general consolidation of the state and considerable bureaucratic consolidation of the state machinery, this model can be extrapolated from the regional level to the federal level and applied not only to small com-

* This paper is based on the results of the Joint Research Project on Corporate Governance and Integration Processes in the Russian Economy, carried out by the Institute for Industrial and Market Studies, State University-Higher School of Economics (SU-HSE) and the Institute of Economic Research, Hitotsubashi University. The author is grateful to Tatiana Dolgopyatova, Ichiro Iwasaki, and Victoria Golikova as well as Bruno Dallago, John Litwack and other participants of the 9th EACES conference in Brighton, UK in September 2006 for their comments and suggestions.

panies, but to large corporations as well. As a result, we believe that it is now possible to offer a “business-capture model” as an alternative to the “state-capture model” ([Yakovlev, 2003], [Yakovlev, 2006]). The Yukos affair was the most striking example of this model in action.

However, a number of other studies provide evidence that alternative models of relations between enterprises and authorities may hold. In particular, using the results of a survey of 500 Russian enterprises conducted in 2000, T. Frye did not discuss “state capture”, but rather a system of “exchange” between the state and businesses, in which there were two groups of companies that were either involved or not involved in this system ([Frye, 2002]). Those that participated in this system of “exchange” found that their proximity to regional authorities and their opportunities for receiving a subsidy of one kind or another were linked to an increased burden of social liabilities. However, those companies in the second group that kept a distance from the state were given no support, but they also bore no extra expenses. One of the reasons why this model may be relatively widely applicable in Russia is the phenomenon of having large enterprises in one-factory towns.¹ Such enterprises have inherited bulky social assets and infrastructure from the planned economy and, in exchange for support from local and regional authorities, still provide heating and other public utilities to the population in their cities and townships.

The interesting point in all three models described above is that the flow of resources between the state and businesses has nothing to do with the efficiency of the businesses. The only essential point here is the prevailing direction of this flow of funds, either from the state to a business (rent-seeking or “state-capture”), or from a business to the state (rent-extortion or “business-capture”), or neither, with a relative balance of “interchange”. Many academic experts and observers believe that government aid is usually granted to enterprises and low-efficiency projects in an effort to smooth social tensions and enlist political support from related social groups ([Mau, 2002], [Zhuravskaya, Makrushin, Slinko, 2002]).

However, this thesis also requires refinement. In particular, a number of studies conducted in recent years demonstrate that new forms of interaction between regional authorities and businesses have evolved ([Locke, 2001], [Kuznetsov, 2002] etc). These forms are generated by globalization, which is eroding the borders of product markets, creating opportunities for transferring production not just to other regions, but to foreign locations as well. This objectively draws the regions into ever more bitter competition for capital investment. This new competitive pressure on

¹ According to data provided by the “Expert Institute”, Russia had about 800 such enterprises in the late 1990s. The Institute of Urban Economy actively investigated how these enterprises interacted with municipalities (See: [Ivchenko, Liborakina, Sivaeva, 2003]). A large joint project by BOFIT and CEFIR included a study of the influence of this interaction on the behavior of industrial enterprises and on the main indicators of their performance (See: [Haaparanta et al., 2003], [Juurikkala, Lazareva, 2006], [Solanko, 2006]).

the state at the national and regional levels is creating preconditions for the government to seek the capacity to support emerging, growing and sufficiently efficient enterprises. At the same time, the very mechanisms of granting support are also changing, so that the risks of rent-seeking and corruption are on the decline.² In sum, these tendencies can be labeled a “new regional industrial policy”, and some studies based on Russian data³ views these events as evidence for a new model of interaction between the state and businesses.

We have attempted to test how well the models described above fit the present realities in Russia, using data from a special survey of enterprises.

2. Initial Data and Basic Hypotheses

Our investigation is based on a survey of large and medium-sized enterprises in the mining, manufacturing and communications sectors that have the organizational-legal form of Joint-Stock Company. This survey was conducted in the spring and summer of 2005 under the Joint Research Project on Corporate Governance and Integration Processes in the Russian Economy carried out by the Institute for Industrial and Market Studies, State University-Higher School of Economics (SU-HSE) and the Institute of Economic Research, Hitotsubashi University, and covered 822 joint-stock companies in 64 regions of the Russian Federation. The survey tools, including the full version of the questionnaire, a description of the structure of the sample, and the general results of the project are given in the paper [Dolgotova, Iwasaki, 2006].

In order to test how well the models conform to reality, the main criterion is the data indicating *who gains* and *what is gained* from the interaction. With this end in view, a number of special questions were included in the questionnaire to describe the forms and size of government support afforded to enterprises by regional (local) authorities, and also the assistance rendered by the enterprises to the authorities and the forms of this assistance. The answers to these two sets of questions were the main ones in our analysis. All questions of this kind related to the 2001–2004 period. As far as we know, this is the first time a survey of enterprises in Russia included questions about organizational support as well as financial aid. In addition to stating whether or not they had received financial and/or organizational support, the enterprises were asked to describe the concrete forms of backing from local and regional authorities.

² These mechanisms were examined in detail in Drebenstov (2004); Rodrik (2004), as well as in Yakovlev, Gonchar (2004).

³ Cases by region see in: [Smirnov et al, 2005]; [Poletayev, 2006]; and [Kozlovskaya, 2006]; and in a broader context, in: [Grigoriev, Urozhayeva, 2003]; and [Zubarevich, 2005].

The respondents were also asked about their participation in federal and regional purchasing programs. Here we should point out that in general, government purchases of products are not a direct way of supporting enterprises. Nevertheless, in recent years government purchases are becoming more important for businesses, because their volume is increasing and the state is becoming a more reliable partner. It is well known from foreign experience that the state can reasonably use its purchases to influence enterprise behavior, for instance by giving preference to domestic producers or to small and medium-sized enterprises. In this context, government purchases were regarded in our survey as one of the ways of providing indirect support to businesses.

Along with regular data on enterprise size, industrial affiliation and ownership structure, two other blocks of questions from the questionnaire were important for our investigation:

Characteristics of performance and behavior (growth rate of output in 2000—2004; financial condition; borrowing from banks; scale of capital investment; use of new production facilities; existence and scale of exports; investment in innovation). The answers to these questions enabled us to construct a block of data on the enterprises that could be called “business activity and performance”.

Participation in advisory bodies at various levels of government, membership in business associations,⁴ inclusion of representatives of regional authorities on the boards of directors. The answers to these questions enabled us to classify enterprises by whether or not they have “stable contacts with the authorities”.

Using the answers to these blocks of questions as the basis for regression analysis, we will determine which models are prevalent in the interaction between businesses and the regional authorities. We will proceed from the following interpretation of the possible results of the analysis:

A close correlation between receiving support from the government and the negative performance of an enterprise (poor financial condition; stagnant or low rate of increase in output; lack of investment, etc.) may be regarded as proof of the traditional hypothesis about the inefficiency of regional industrial policy.

On the contrary, a positive correlation between support from the government and the good performance of enterprises would be grounds to believe that a “new industrial policy” is taking shape in the Russian regions, which implies that support is being given to growing and successfully developing firms.

A positive correlation between government support to enterprises and assistance rendered by the enterprises to the authorities can be considered evidence in favor of the hypothesis about a “system of interchange”.

A dependence of receiving government support upon maintaining close contacts with the authorities can be an outcome of the “state capture” model.

⁴ This question was included in the block because contacts with government agencies were recognized by the respondents to be second on the list of important functions of business associations.

Clear prevalence of “assistance to the authorities” over receiving government support could be an indicator of the “business capture” model and of the extraction of administrative rent.

3. Intensity and Forms of Government Support of Businesses by Regional (Local) Authorities and the Provision of Assistance to the Authorities by Businesses

According to the results of the survey, in 2001—2004, 23% of the respondent firms received *financial support* from regional and local authorities, and 6% of the firms received their backing through two or more channels. Tax relief and tax deferrals may be considered to be among the most important forms of financial support (they were reported by 12% of the respondents). Low-interest credits or bankers’ guarantees and fiscal subsidies were each mentioned by another 5% of the respondents. Other forms of support (land rental advantages, preferential tariffs for electric power and other public utilities) were mentioned by from 1.5% to 4% of the surveyed enterprises.

Organizational support in various forms covered a larger number of enterprises: 19% enjoyed this form of support through at least one channel, and another 10% received support through two or more channels. The most widespread form of organizational support is assistance with establishing contacts with federal authorities and agencies (reported by 14%, or practically every second respondent among those who were covered by this support). Let us point out that a very small number of respondents chose answers that indicated help in the establishment of contacts with investors (2 choices, less than 5% in total) and assistance in contacts with foreign partner firms, investors, and financial institutions (3 choices, about 3% in total). In contrast, a very high proportion (more than 11%) of respondent firms that received help from local and regional authorities were assisted in building contacts with Russian partner enterprises. This could be a result of the authorities, given the inadequate judicial system, taking part in resolving conflicts between suppliers and customers within their regional boundaries.

The program of *government purchases* involved the participation of 24% of the businesses in 2001—2004, including 15% that were suppliers to the federal government and 12% that filled the orders of regional and local authorities. Interestingly, these groups practically never intersected — only 3% of the respondent firms had both federal and regional government orders during this period. As this paper deals with the interaction of businesses with regional and local authorities, we will further consider only the fulfillment of regional government orders by the respondent firms.

Comparing the structure of recipients of various types of support, we find that in total almost 45% of the surveyed enterprises received some kind of support from regional and local authorities. Support of two or three different types was received by 15% of the respondents.

The results of our survey demonstrate that assistance was granted by businesses to local and regional authorities on a massive scale and involved more than 4/5 of the respondents in 2001–2004. Top managers of the respondent firms most frequently indicated answers such as “sponsoring regional/municipal programs” (63%); “repairs of roads, schools, hospitals, etc.” (35%), and “maintenance of social facilities and housing” (28%). At the same time, many businesses donated money to charity for concrete organizations and social groups (orphanages, disabled people, and pensioners). We should also mention that quite a large group of businesses (14%) carried out commercial projects in the social sphere in cooperation with regional and local authorities. In our opinion, these data are an indirect confirmation of the development of mechanisms of private and public partnership at the regional level. Let us also emphasize that most businesses typically employ multiple channels for rendering assistance to regional and local authorities. For instance, 35% of the respondents used only one channel for giving assistance; 24% used two, and another 23% used three or more channels.

4. Exploration of Links of Government Support and Assistance to the Authorities with Other Indicators of Activity of the Surveyed Enterprises

The validity of the hypotheses formulated above were analyzed with logistic regressions, which assessed the likelihood for enterprises to receive government support and their propensity to render assistance to local and regional authorities. For this purpose we chose a fairly wide range of indicators to be used as explanatory variables; these can be combined into three blocks:

Block I. Objective characteristics of the business, its ownership structure and corporate governance;

Block II. Patterns of behavior and development;

Block III. Interaction with the state.

The indicators included in each group and their descriptions are given in Table 1 of the Appendix. The results of the logistic regressions are given in Tables 2–6 of the Appendix. In brief, these results can be interpreted as follows:

There is a significant positive correlation between obtaining different types of government support. In particular, the chances of receiving an order from the regional administration are higher if a business is already a recipient of financial or

organizational support, and vice versa. This is especially true about businesses that receive the same type of support through two or more different channels.

Receipt of financial support from local and regional authorities is unrelated to the business’s pattern of behavior (Block II), except for borrowing from commercial banks in 2001–2004 (which can be regarded as an indicator of relative financial stability of the business). At the same time, financial support is significantly related to regional authorities holding a package of the business’s shares and to participation of the representatives of the business in advisory bodies at various levels of government (Block III).

There is a significant positive correlation between regional contracts and the level of competition from domestic producers and joint ventures with foreign capital—residents of the Russian Federation (Block II). Differences by industry were found to be insignificant, excluding communications.

The largest number of significant correlations occurs for businesses that receive organizational support. In particular, this type of support is more likely to be received by businesses that are members of business associations; by joint-stock companies controlled by the state (both indicators are from Block III); by businesses with planning horizons longer than five years; by businesses that have faced a substantial reduction in their staff; by businesses that have successfully introduced the standards of the International Organization for Standardization (Block II). In Block I, we can observe that the rendering of organizational support is positively correlated with the existence of a controlling shareholder at the enterprise, and negatively correlated with certification of the company by an international auditor. While these two correlations can be explained logically (in the presence of a single owner, firm policy is more definite; joint-stock companies that invite international auditors are usually large, they operate in global markets and have no need for support from local authorities), the positive correlation with frequent changes of the CEO is harder to explain.

This interlacing pattern of various types of support led us to carry out regression analysis not only with partial indicators of government support, but also with an integral indicator reflecting the number of various types of government support received by a business. Using this approach we have found that the highly significant indicators (at the 1%-level) are borrowing from banks, membership in business associations, and also government participation in joint-stock companies (the coefficients increase when government-controlled firms are considered). Assisting local and regional authorities is also significant and positively correlated with receiving government support, but only when this help is provided through two or more channels.

The likelihood of assisting local and regional authorities also increases when we consider the largest businesses (nevertheless, this correlation remains statistically insignificant) and in the cases when the CEOs were not changed in 2001—

2004; when the respondent firms were members of business associations; when they borrowed from banks and made capital investments. Moreover, businesses located in regions with low and meager investment potential have assisted the state much more often. We have also observed a link with the intensity of competition with producers from the CIS countries and from outside the CIS, but this is beyond meaningful interpretation.

For simplicity, the results are presented in Table 1, where the number of Xs show the intensity of the correlation with the corresponding blocks of indicators of activities of the respondent businesses.

Table 1. Revealed Correlations between Government Support, Assistance Rendered to the Authorities and Indicators of Activities of the Respondent Businesses

	Blocks of indicators		
	Scale, industry, region, corporate governance	Patterns of behavior	Interaction with the state
Financial support	—	X	XX
Government procurement on products	—	X	—
Organizational support	X	XXX	XX
General indicator of government support	—	X	XXX
Assistance to the authorities	X	XX	X

In sum, we note the following. The first hypothesis about the inefficient and politically engaged nature of industrial policy of regional authorities has no positive proof in general. There are no signs that support is being systematically given to businesses with poor current indicators of performance. Reduction in employment by 20% and more in 2001—2004 is the only indicator in this set, but it could possibly be the outcome of aggressive restructuring measures taken by the businesses in question. Moreover, this indicator is significant only in relation to organizational support.

The second hypothesis (regarding the “new regional industrial policy”) is partly confirmed. For instance, organizational support is more often provided to businesses with planning horizons longer than five years and to those that have successfully introduced the standards of the International Organization for Standardization (ISO). What is more, government support is generally more often given to businesses that borrowed from commercial banks in 2001—2004 (this can be regarded as an indirect confirmation of their financial health).

There are a number of points that substantiate the third hypothesis (regarding the existence of a system of “interchange”). Businesses that are actively engaged in assisting the authorities (through two and more channels were much more frequently mentioned among the recipients of government support. To all appearances, business associations regularly act as one of the organizers of the “interchange”, because their members are often involved in the system of government support and at the same time regularly provide assistance to the authorities.

Referring to the proportion between “state capture” and “business capture”, the regression analysis, as we believe, is more supportive of the latter hypothesis. On one hand, the existence of numerous businesses that provide assistance to the authorities and yet receive no support from them at all, as well as the fact that assistance to the authorities has been more often rendered by firms that made capital investments, may be indirect evidence of administrative barriers and of the likelihood of the rent-seeking behavior of bureaucrats. On the other hand, the fact that firms with government stakes in their capital are the first to receive government support while they show no prominence in assistance to the authorities can be taken to be evidence of “state capture”. However, a reverse interpretation is also possible here: bureaucrats are more inclined to support businesses under their control, because it is easier to arrange rent seeking through them.

In general, the results of the regression analysis give no definite confirmation of any individual model. Rather, we suggest there is a coexistence of different models of interaction between the state and businesses at the regional level.

5. Possible Models of Interaction between Corporations and Regional Authorities

Using the results of a simple pair distribution over two integral variables “receipt of government support” and “assistance rendered to the authorities”, we have obtained the following matrix (See Table 2):

Table 2

		Assistance to the authorities	
		Not rendered	Rendered
Support from local and regional authorities	Not received	98 firms	347 firms
	Received	39 firms	319 firms

Using this distribution we have constructed a new variable which reflects the four possible correlations between the two initial parameters, and conducted a cor-

relation analysis of the links between the new variable and the key indicators of activities of the surveyed enterprises. The results of this analysis are given in Table 3. Let us emphasize that Table 3 presents data referring only to those indicators that have statistically significant differences in the pair distribution over the two integral variables “receipt of government support”/“assistance rendered to the authorities”.

Table 3. Main Characteristics of Groups of Businesses Classified by their Type of Interaction with the Authorities

Parameters	Groups of businesses (by type of interaction with the authorities)				Statistical significance of differences between groups
	№1. Rendering no help, receiving no government support	№2. Rendering help to the authorities without receiving government support	№3. Rendering help to the authorities and receiving government support	№4. Rendering no help, yet receiving government support	
Number of respondent businesses attributed to the group	98	347	319	39	
<i>Objective characteristics of the business, its ownership and corporate governance</i>					
Sales volume in 2004 (median, million rubles)	100	190	300	130	X
Number of employees in 2004 (average)	1015	1519.	2708	844.	
Number of employees in 2004 (median)	300	410.	617	390	
Output per employee in 2004 (median, 1000 rubles)	289	414	396	311	
Firms with less than 300 employees.	47%	33%	22%	33%	0,000
Firms with more than 1000 employees	23%	24%	37%	18%	
Members of business groups (holding company groups)	31%	38%	45%	28%	0,028
Firms in which foreign investors have a block of shares	8%	14%	17%	7%	0,101
<i>Patterns of the business's behavior</i>					
Firms with 50% or more output growth in 2001—2004	47%	57%	59%	33%	0,003
Firms with 50% or more increase in wages in 2001—2004	53%	68%	69%	34%	0,000

Table 3

Parameters	Groups of businesses (by type of interaction with the authorities)				Statistical significance of differences between groups
	№1. Rendering no help, receiving no government support	№2. Rendering help to the authorities without receiving government support	№3. Rendering help to the authorities and receiving government support	№4. Rendering no help, yet receiving government support	
Firms exporting more than 10% of their product	9%	19%	28%	23%	0,000
Firms facing moderate and strong market competition with foreign producers	47%	47%	55%	62%	0,011
Firms with a planning horizon shorter than 1 year	40%	34%	20%	42%	0,000
Firms with a planning horizon of 5 years and more	4%	7%	11%	5%	
Firms that made capital investments in 2001—2004	54%	74%	84%	71%	0,000
Firms that introduced the ISO in 2001—2004	33%	38%	50%	42%	0,004
Firms that borrowed from banks in 2001—2004	62%	77%	94%	84%	0,000
<i>Indicators of the business's interaction with the state</i>					
Firms with government interest (stakes of 5% and more)	12%	13%	28%	22%	0,000
Firms in which regional authorities have a capital stake	4%	5%	15%	10%	0,000
Firms with regional representatives on the board of directors	2%	8%	17%	5%	0,000
Firms that rendered assistance to authorities through two and more channels	X	50%	65%	X	0,000
Firms that participated in advisory bodies of government agencies (at the regional level)	13%	21%	29%	24%	0,000
Firms that are members of trade associations	35%	49%	71%	33%	0,000

As seen from the data given above, the four groups that we have singled out differ in size. The group that keeps a distance from the state (no government support, no assistance to the authorities) includes about 12% of the respondents. The groups

that render assistance to the state with and without receipt of government support are comparable — 40% and 43%, respectively. Finally, the group of businesses that receive government support without providing assistance to the authorities has a weight of less than 5% of our sample.

The first group of businesses are those that are generally of small size (the average number of their employees is 1015, with a median of 300) and is oriented towards local markets (only 9% have substantial exports; and 53% face practically no competition from foreign producers in their markets). The businesses of this group have the weakest connections with the state across all characteristics (general participation of the government; shareholding by local authorities; participation of representatives of regional authorities on their boards of directors; participation in advisory bodies at various levels of government). Their distinctive feature is that in a sense, they are autonomous — they less regularly join business groups and business associations and less frequently borrow from commercial banks. They typically have shorter planning horizons (40% have horizons of less than a year) and lower investment and innovational activity. Nevertheless, these firms can be considered to be relatively successful: in 2001–2004, about half of them managed to increase their output and wages by 50% and more.

The businesses that provided assistance to authorities (the second and third groups) are large, aggressively expanding companies, members of business groups, and they have longer planning horizons. Regional authorities may have representatives on their boards of directors even when the region has not a single share in the stock of these companies. Meanwhile, firms that receive no government support (the second group) have typically low rates of state interest in their stock and show little activity in advisory bodies at various levels of government; they are also less often members of business associations. The share of dynamic exporters is also lower in this group. On the other hand, the third group (firms that provide assistance to the authorities and receive support from them) has high levels of absolutely all indicators in question, including the indicators of development (planning horizon, capital investment, managerial innovations, rates of increase in output and wages, exports, etc.). In comparison with the second group, they are also more active in rendering assistance to local and regional authorities. As a result, in our opinion, this group is illustrative of both the model of the “system of interchange” and the model of “new industrial policy”.

The last, fourth group (firms that receive government support without providing assistance to the authorities) is prominent in terms of the share of businesses with government stakes, their active participation in advisory bodies, and their high levels of exports. At the same time, this group shows the lowest average rates of growth in 2001–2004 (only 1/3 of the businesses were able to increase output and wages by 50%). The firms of this group are much more rarely members of business groups (holding company groups) and seldom take part in the activities of business

associations. Generally speaking, this is probably the group that can be considered an example of an ineffective “personified” type of industrial policy pursued by regional authorities. It is also possible to assume that the redistribution of benefits and subsidies from regional and local budgets to private hands goes through these companies, which are “close-to-the-authorities”. However, we have to say that this group of businesses is of marginal scale — their number is 1/8 of the population of the most dynamic and efficient third group, which also closely cooperates with regional authorities.

Thus, the results of our correlation analysis confirm our hypothesis that the interaction of enterprises and regional authorities may be described by a great variety of models. In the whole range of surveyed businesses we can single out those that are closely related to local and regional authorities (in terms of government stakes in their capital, participation of their top managers in advisory bodies under government agencies, membership in business associations). Such businesses receive government support much more often. There are inefficient outsiders among them, but the overwhelming majority consists of dynamically evolving firms. They are also the most active in assisting local and regional authorities.

6. Concluding Remarks

In summarizing our analysis, we come to the following conclusions:

The scale of the phenomenon. Although fiscal reform and delimitation of powers between the federal center and the Russian regions reduced the financial capacities of regional governments, the coverage of businesses with various levels of support at the regional level is rather significant. According to the survey data, in 2001–2004 the share of respondents that received some kind of aid was about 45%, including 29% that received organizational support, 23% that received financial aid, and 12% that supplied their products to regional authorities. Assistance to regional and local authorities was also carried out on a massive scale; this assistance was rendered by more than 80% of the respondents, including 24% that used two channels and another 23% that used three or more channels.

Factors of granting government support. Local and regional authorities much more often support joint-stock companies when the government holds stakes in them, and the authorities are also more inclined to support firms that participate in government advisory bodies or that are members of trade associations. Therefore, there is something like a kind of “special relationship” between regional authorities and the businesses receiving their support. On the other hand, the results of the survey do not give sufficient evidence to prove the widespread opinion that the industrial policy pursued by regional authorities is generally inefficient. The majority of firms that received support in 2001–2004 are dynamically developing firms, which

make capital investments, modernize their organization schemes and management, and export their goods and services. At the same time, these businesses were the most active in providing assistance to local and regional authorities.

3. *Models of interaction.* Our data show that the interaction between businesses and regional authorities may be described by a number of models. The most widespread model is probably that of “interchange”. In this model the businesses that receive benefits, subsidies and other support from regional authorities also bear a greater burden of social liabilities and more frequently provide assistance to the authorities. In addition to the businesses that engage in this system of “interchange”, there are those that keep a distance from the state. Nevertheless, a large part of these regularly help local and regional authorities. This help may be considered to be one of the mechanisms of extraction of administrative rent by bureaucrats. Finally, there is also a group of businesses that receive support without giving help to the authorities. These businesses are close to the authorities by a number of indicators, and their rates of growth in output and wages are low, their planning horizons are short, etc. This group can probably be considered to be examples of ineffective “personified” industrial policy pursued by regional authorities. It is also possible to assume that the redistribution of benefits and subsidies from regional and local budgets to private hands goes through these “close-to-the-authorities” companies. However, this group makes up less than 5% of the sample.

In general, the results of our survey demonstrate that a more equal and more civilized style of relations is developing between businesses and regional authorities. We can also state that regional authorities are active in their support of businesses, and that their efforts are relatively successful. Let us emphasize that reliance on mechanisms of organizational support (which in many cases is more important today than direct financial aid) is growing in scale in the regions of the Russian Federation. Thus, a more detailed study of the mechanisms and instruments of regional industrial policy, along with further dissemination of “best practice”, is becoming an urgent need.

References

Dolgopyatova Tatiana, Iwasaki Ichiro. Exploring Russian Corporations. Interim Report on the Japan–Russia Joint Research Project on Corporate Governance and Integration Processes in the Russian Economy / Institute of Economic Research. Hitotsubashi University. February 2006 IER Discussion Paper Series No. 35 (<http://www.hit-u.ac.jp/>).

Drebentsov Vladimir. Diversifying Russia’s Economy — Key to Sustainable Growth (mimeo). The World Bank, 2004.

EIU (2006) Russia: The Business Outlook / By Dr. Daniel Thorniley. Economist Intelligence Unit. March 2006.

Frye Timothy. Capture or Exchange? Business Lobbying in Russia // *Europe-Asia Studies*. November 2002. Vol. 54. No. 7. P. 1017–1036.

Frye Timothy, Shleifer Andrei. The Invisible Hand and the Grabbing Hand // *The American Economic Review*. May 1997. Vol. 87. No. 2. Papers and Proceedings of the Hundred and Fourth Annual Meeting of the American Economic Association. P. 354–358.

Grigoriev L.M., Urozhaeva Yu.V. Influence of economic recovery on regional development // 1000 Best Russian Enterprises. Russian Industry: Markets, Sectors, Regions. M.: Expert Institute, 2003. P. 39–48 (in Russian).

Haaparanta Pertti, Juurikkala Tuuli, Lazareva Olga, Pirttilä Jukka, Solanko Laura, Zhuravskaya Ekaterina. Firms and public service provision in Russia // *BOFIT Discussion Papers*. 2003. No. 16.

Hellman Joel S., Jones Geraint, Kaufman Daniel. Seize the State, Seize the Day: an empirical analysis of State Capture and Corruption in Transition. Paper prepared for the ABCDE 2000 Conference, Washington, D.C. 2000, April 18–20.

Hellman Joel S., Jones Geraint, Kaufman Daniel, Schankerman Mark. Measuring Governance, Corruption, and State Capture. How Firms and Bureaucrats Shape the Business Environment in Transition Economies // *World Bank Policy Research Paper* 2312, April 2000.

Ivchenko S.V., Liborakina M.I., Sivaeva T.S. The town and business: development of social responsibility of Russian companies. M.: Institute for Urban Economics, 2003 (in Russian).

Juurikkala Tuuli, Lazareva Olga. Lobbying at the local level: Social assets in Russian firms // *BOFIT Discussion Papers*. 2006. No. 1.

Kaplinsky Raphael. (2000). Spreading the gains from globalization: what can be learned from value chain analysis? // *IDS working paper* No. 110, 2000.

Kozlovskaya O.V. Regional strategic planning. Experience of Tomsk oblast // *EKO*. 2006. No. 3 (in Russian).

Kuznetsov Yevgeny. Waking up, Catching up and Forging Ahead: Institutional Agenda for Knowledge-Based Growth in Russia. World Bank Institute, 2002 (mimeo).

Locke Richard M. Building Trust. Paper presented at the Annual Meetings of the American Political Science Association, Hilton Towers, San Francisco, California, September 1, 2001.

Mau V. The Post-Communist Russia in the Post-Industrial World: Problems of Catching Up. // *Voprosy ekonomiki*. 2002. № 7 (in Russian).

Poletaev A.V. (ed.) Samara oblast: from industrial toward post-industrial economy. M.: TEIS, 2006 (in Russian).

Slinko I., Yakovlev E., Zhuravskaya E. (2005) Laws for Sale: Evidence from Russia // *American Law and Economics Review*. 2005. Vol. 7. No. 1. P. 284–318.

Smirnov S., Simachev Yu., Zasimova L., Chulok L. Mechanisms for Improvement of Competitiveness in the Economy of Regions: WP1/2005/06. Moscow: SU-HSE, 2005 (in Russian).

Solanko Laura. Coping with missing public infrastructure: An analysis of Russian industrial enterprises // BOFIT Discussion Papers. 2006. No. 2.

Treisman Daniel. Tax evasion and regional “fiscal protection” in federal states: a model with evidence from Russia. University of California. November 1999 (mimeo).

Zhuravskaya E., Makrushin A., Slinko I. Reasons for Emergence of Bad Budgetary Incentives. CEFIR, January 2002.

Zubarevich N. Area of influence of large companies in Russian regions // Regional elites in modern Russia / Ed. by Jakob Fruchtmann. M.: Liberal Mission, 2005. P. 93–113 (in Russian).

Yakovlev Andrei. Informal tax competition on a regional level: the Russian scenario // East-West Journal of Economics and Business. 2002. Vol. V. No. 1. P. 109–121.

Yakovlev Andrei. Interaction of Interest Groups and Their Impact on Economic Reform in Contemporary Russia. Forschungsstelle Osteuropa Bremen, Arbeitspapiere und Materialien. 2003. No. 51.

Yakovlev Andrei. The Evolution of Business-State Interaction in Russia: From State Capture to Business Capture // Europe-Asia Studies, 58. November 2006. No. 7. P. 1033–1056.

Yakovlev Andrei, Gonchar Ksenia. On the Use of New Industrialized Countries Experience in Russia for Institutional Development and Stimulation of Innovation-Based Economic Growth // Voprosy ekonomiki. 2004. No. 10 (in Russian).

Appendix

The Explanatory Variables used in the Logistic Regressions and the Regression Results

Table 1

Selected explanatory variables	Possible values of selected indicators
<i>Group 1. Objective characteristics of the business, ownership and corporate governance structure</i>	
Industry	Communications; fuels and electric power; metals; machinery and metalworking; chemicals and petrochemicals; logging, woodworking, pulp and paper; light industry; food; building materials
Size (by number of employees)	100–299; 300–499; 500–999; 1000–4999; 5000 and more
Regional investment potential (data of the Expert Rating Agency, 2005)	High; medium; lowered; insignificant (all — at a moderate level of risk)
Presence of foreign shareholders	Foreign shareholders are present; no foreign shareholders
Presence of controlling shareholder	Controlling shareholder is present; no controlling shareholder
Stability of the firm’s top management	CEO unchanged in 2001–2004; CEO changed once; CEO changed several times
Type of accountant auditing the company’s financial statements	International auditing firm; auditing firm from the same region; auditing firm from another region of the RF
<i>Group 2. Patterns of enterprise behavior</i>	
Planning horizon	Less than 1 year; 1–3 years; 3–5 years; more than 5 years
Assessment of general financial condition	Good; rather good; fair; rather poor; poor
Borrowing from banks	No borrowing in 2001–2005; made borrowing
Output growth in 2001–2004	Output more than doubled; grew by 50–100%; unchanged (changes in the range of $\pm 5\%$); declined (more than by 5%)
Changes in employment in 2001–2004	Grew by more than 20%; grew by less than 20%; unchanged (changes in the range of $\pm 5\%$); declined by less than 20%; declined by more than 20%
Handling of export operations by the respondent firm	The firm did not export; the firm did export
Intensity of market competition from Russian producers and joint ventures with foreign capital — Russian residents	High level; moderate level; practically no competition

Table 1

Selected explanatory variables	Possible values of selected indicators
Intensity of market competition from producers from CIS countries and from countries outside CIS	High level; moderate level; practically no competition
Capital investment in 2001—2004	No capital investment; investment was made
Introduction of new production facilities in 2001—2004	Yes, new facilities were introduced; no new facilities
Introduction of ISO standards in 2001—2004	Successfully introduced ISO standards; failed to introduce or did not engage in it
<i>Group 3. Interaction of the enterprise with the state</i>	
Ownership of the business's stock by regional authorities	Regional and local authorities are among the shareholders; there are no such shareholders
Presence of government control	Government control; government shareholding; private ownership without government shareholding
Regional representation on the board of directors	No regional and local representatives on the board of directors; regional and local representatives on the board of directors
Participation of top managers in advisory bodies under government agencies	No participation; participation at the regional level; participation at the federal level
Membership of the business in trade associations	The business did not join any trade association; the business is a member of one or more trade associations
Participation of the business in regional government purchases in 2001—2004	Did not take part; took part through 1 channel; took part through 2 channels
Receipt of financial support from the region in 2001—2004	Received no support; received support through 1 channel; received support through 2 and more channels
Receipt of organizational support from the region in 2001—2004	Received no support; received support through 1 channel; received support through 2 and more channels
Rendered assistance to regional and local authorities in 2001—2004	Rendered no help; rendered assistance through 1 channel; rendered assistance through 2 and more channels

Table 2

Financial support		B	Sig.
Step 5(e)	q45_gr1 — borrowed from banks	1,592	,010
	q60b_gr2 — regional authorities own a block of shares	1,246	,001
	q102_svd — participation in advisory bodies at the federal level		,034
	q102_svd(1) — no participation in advisory bodies under government agencies	−,916	,057
	q102_svd(2) — participation in advisory bodies at the regional level	−,310	,541
	q98_sum1 — received organizational support through 2 and more channels		,039
	q98_sum1(1) — received no organizational support	−,774	,035
	q99_reg1 — participation in regional government purchases through 2 channels		,005
	q99_reg1(1) — did not take part in regional government purchases	−1,024	,483
	Constant	−2,390	,230
Pseudo-R2 = 0,211			

Table 3

Organizational support		B	Sig.
Step 10(j)	q15 — reduction of employment by more than 20%		,048
	q15(3) — unchanged number of employees (−/+ 5%)	−,823	,055
	q21 — planning horizon of more than 5 years		,025
	q21(1) — planning horizon of less than 1 year	−1,428	,007
	q21(2) — planning horizon of 1—3 years	−,997	,042
	p43_2 — introduction of the ISO	,448	,075
	q60_svd3 — no government stake in capital		,009
	q60_svd3(1) — government control	1,692	,003
	q65 — presence of a controlling shareholder	,716	,053
	q100_sv1 — membership in a trade association	1,130	,000
	q83 — CEO was changed several times		,017
	q83(1) — CEO was unchanged in 2001—2004	−1,021	,005
	q83(2) — CEO was changed once	−,964	,019
	q99_reg1 — participation in regional government purchases through 2 channels		,106
	q99_reg1(1) — did not take part in regional government purchases	−23,080	,999
	q97_sum1 — financial support through two channels		,004

Table 3

Organizational support		B	Sig.
	q97_sum1(1) — there was no financial support	−2,059	,003
	q97_sum1(2) — financial support through 1 channel	−1,432	,047
	q72 — auditor from another city in the RF		,004
	q72(1) — international auditor	−1,501	,016
	q72(2) — auditor from the same city	,460	,153
	Constant	23,903	,999
Pseudo — R2 = 0,323			

Table 4

Government purchases in the region		B	Sig.
Step 4(d)	q2 — communications		,024
	q2(1) — fuels and electric power	−,286	,788
	q2(2) — metals	−1,199	,343
	q2(3) — machinery and metalworking	−1,287	,106
	q2(4) — chemicals and petrochemicals	−,464	,651
	q2(5) — logging, woodworking, pulp and paper	−,625	,504
	q2(6) — light industry	,188	,824
	q2(7) — food	,580	,429
	q2(8) — building materials	−,971	,337
	gr_20ab — absence of market competition from Russian producers and joint ventures with foreign capital — Russian residents		,012
	gr_20ab(1) — strong market competition from Russian producers and joint ventures with foreign capital — Russian residents	1,856	,004
	gr_20ab(2) — moderate market competition from Russian producers and joint ventures with foreign capital — Russian residents	1,793	,004
	q97_sum1 — financial support through 2 channels		,000
	q97_sum1(1) — there was no financial support	−2,752	,000
	q97_sum1(2) — financial support through 1 channel	−1,841	,006
	q98_sum1 — received organizational support from 2 and more channels		,008
	q98_sum1(1) — received organizational support	−1,236	,010
	Constant	−,082	,936
Pseudo — R2 = 0,301			

Table 5

General government support		B	Sig.
Step 4(d)	q45_gr1 — borrowed from banks	1,352	,000
	q60_svd3 — no government stake in the business's capital		,000
	q60_svd3(1) — government control	1,797	,001
	q60_svd3(2) — government stake in the business's capital	,990	,002
	q100_sv1 — membership in trade associations	,919	,000
	q96_sum1 — rendered assistance to the region through 2 and more channels		,034
	q96_sum1(1) — rendered no assistance to the region	−,409	,214
	q96_sum1(2) — rendering assistance to the region through 1 channel	−,596	,011
	Constant	−3,211	,000
Pseudo — R2 = 0,213			

Table 6

Assistance provided to local and regional authorities		B	Sig.
Step 7(g)	gr_pers2 — 5000 and more employees		,170
	gr_pers2(1) — 100-299 employees	−18,823	,998
	gr_pers2(2) — 300-499 employees	−18,669	,998
	gr_pers2(3) — 500-999 employees	−17,703	,998
	gr_pers2(4) — 1000-4999 employees	−19,110	,998
	gr_20cde — no market competition from producers from CIS countries or from countries outside CIS		,029
	gr_20cde(1) — strong market competition from producers from CIS countries and from countries outside CIS	,483	,225
	gr_20cde(2) — moderate market competition from producers from CIS countries and from countries outside CIS	−,613	,087
	q34_1 — investment was made	,756	,027
	q45_gr1 — borrowed from banks	1,053	,004
	q100_sv1 — membership in trade associations	,694	,026
All — with moderate risk	reg_expt — regions with high potential		,003
	reg_expt(1) — regions with medium potential	,559	,285
	reg_expt(2) — regions with low potential	1,746	,000
	reg_expt(3) — regions with insignificant potential	,908	,027
	q83 — CEO was changed several times		,020
	q83(1) — CEO was not changed in 2001-2004	1,189	,005
	q83(2) — CEO was changed once	,941	,052
	Constant	15,099	,998
Pseudo — R2 = 0,236			

Препринт WP13/2007/14
Серия WP13
«Научные доклады Института фундаментальных
междисциплинарных исследований»
(CAS Working Paper Series)

А. Яковлев

**Российская корпорация и региональные власти:
модели взаимоотношений и их эволюция**

(на английском языке)

Публикуется в авторской редакции

Выпускающий редактор *А.В. Заиченко*
Технический редактор *Ю.Н. Петрина*

ЛР № 020832 от 15 октября 1993 г.
Отпечатано в типографии ГУ ВШЭ с представленного оригинал-макета.
Формат 60×84 ¹/₁₆. Бумага офсетная. Тираж 150 экз. Уч.-изд. 1,6 л.
Усл. печ. 1,4 л. Заказ № . Изд. № 810
ГУ ВШЭ. 125319, Москва, Кочновский проезд, 3
Типография ГУ ВШЭ. 125319, Москва, Кочновский проезд, 3
Тел.: (495) 772-95-71; 772-95-73