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Russia's Business Associations: Who Joins and Why?

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A quarter century ago, Mancur Olson published *The Rise and Decline of Nations*, one of the modern era's most influential studies on the institutional determinants of economic growth. In it, he linked development patterns in industrial democracies to the entrenchment of organized interests, including those in the business community. Strong business associations, he theorized, actually harm national economies through their efforts to undermine competitive markets.

However, Mancur Olson's vision of associations as organizations that assist firms primarily through services that redistribute wealth, rather than generate new wealth, does not fare well in the face of the evidence from Russia. Judged on the basis members' behaviors, the associations that have emerged in Russia do not closely resemble the organizations that Olson described.

According to my study of Russian associations, they actively promote market-adapting restructuring or, at the very least, attract firms that are so inclined. Since liberalized markets have posed a survival threat to many Russian enterprises, it would not necessarily have been surprising to find that business organizations had grown to stifle their development or modify their outcomes. Instead, at least in part, post-communist business associations have assumed a role in promoting flows of information and knowledge that allow firms to grow, and nascent markets to perform, more effectively.



Introduction

A quarter century ago, Mancur Olson published *The Rise and Decline of Nations*, one of the modern era’s most influential studies on the institutional determinants of economic growth. In it, he linked development patterns in industrial democracies to the entrenchment of organized interests, including those in the business community. Strong business associations, he theorized, actually harm national economies through their efforts to undermine competitive markets.

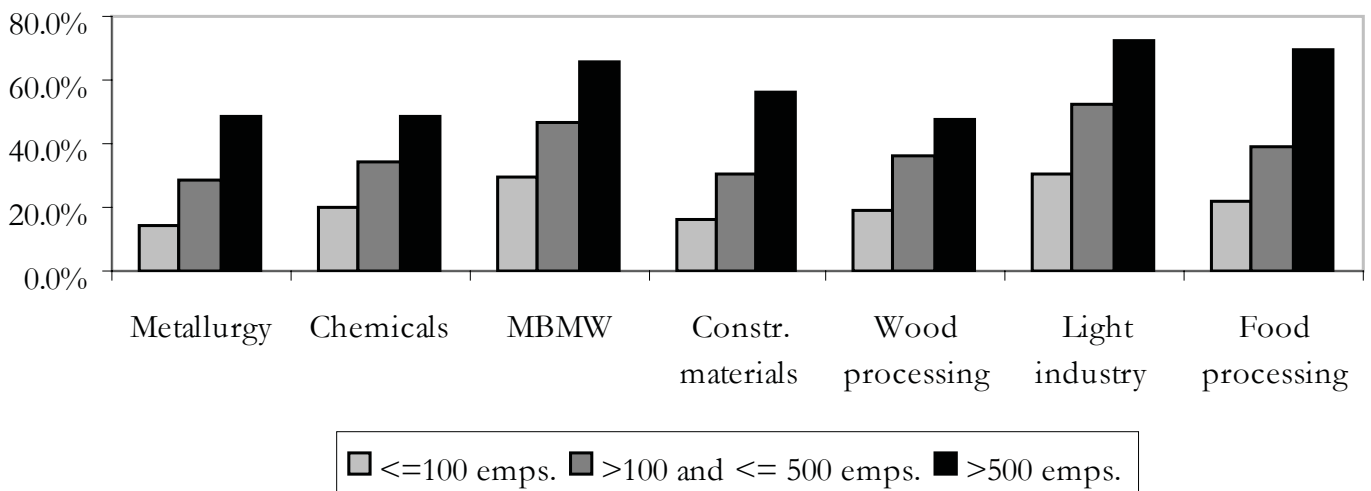
Olson identified several channels through which, he believed, this influence was exercised. First, he reasoned that by financing redistributive activities – e.g., lobbying for favored tax and regulatory treatment – business associations divert resources away from wealth-generating investments in physical and human capital. Second, he suspected that associations slow the introduction and spread of new technologies, because of their advocacy on behalf of their least dynamic members and because innovation can disrupt the cartel-like arrangements that a sector-specific association may establish. And third, he believed their efforts to shield members from foreign competition reduce the efficiency gains associated with international trade.

If Olson’s perspective has merit, we could well expect that the purposes ascribed to business associations would be reflected in the behavior of member firms.

Where voluntary, that is, membership should correlate negatively with investment in worker training and physical capital (all else equal). Firms belonging to associations, moreover, should be less inclined to innovate and experiment with new production processes. And they should exhibit less willingness to expand trade ties. Furthermore, at the organizational level, we would not expect to uncover evidence that associations themselves promote the very activities that Olson suggested they inhibit.

A radically different perspective views business associations as offering services that support, rather than frustrate, the development process. Critical to this viewpoint is the idea that business associations collect and/or transmit the very types of information and knowledge that competitive markets, on their own, under-provide. For instance, they facilitate worker and managerial training; they disseminate news of new production processes and technologies; and they alert businesses as to the location and reliability of potential trade partners and investment opportunities. These activities, of course, suggest a very different pattern of behavior among member firms than the one suggested by Olson’s writing. All else equal, that is, firms belonging to associations should be more – not less – active than non-members in investing in physical and human capital, introducing new technologies and expanding trade ties.

Figure 1. Membership rates by sector and size



So as to distinguish between these competing visions of business associations and the implied behavioral strategies of their members, I designed and administered (with the assistance of my Russian colleague, Dr. Irina Perova, and the Levada Analytical Centre) a large survey project in Russia with assistance from the National Council of Eurasian and East European Studies, the William Davidson Institute and the Fulbright-Hays Fellowship program. I believe it to be the only study in a former communist country to gather contemporaneous information from the managers of both firms and business associations so as to explain the purposes and impact of the latter.

Before proceeding with a discussion of some of this research, however, it bears pointing out that after writing *The Rise and Decline of Nations*, Olson extended his framework beyond stable, industrialized democracies. In *Power and Prosperity*, a volume published posthumously in 2000, he attributed the disappointing performance of some transition economies in the 1990s to business' efforts to frustrate market liberalization. In Russia, he argued that business organizations, which were based on pre-reform production networks, lobbied heavily for subsidies and other protections. Their successes in redistributing wealth, Olson argued, fed hyperinflation and slowed market development. Although in narrow terms this is an accurate account of developments in the early 1990s, Olson's categorical assessment of the purposes of post-communist business associations misses the mark. My survey evidence, in fact, supports the competing view.

Survey Evidence on Member Firms

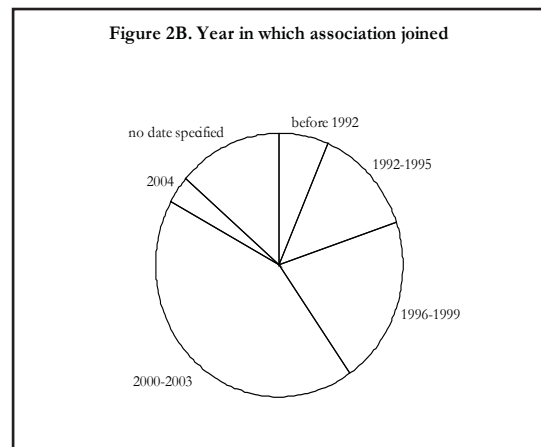
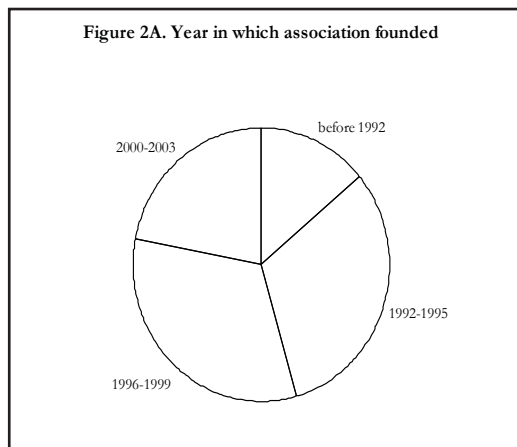
In order to gauge membership rates in Russia's post-communist business associations, the project began with a screening survey administered to a representative sample of 1300 enterprises. Respondents were asked only if their firm belonged to a business association and, if so, which one(s). Roughly one-third reported belonging to at least one business association, with sub-national units of the Chamber of Commerce and regional affiliates of the Russian Union of Industrialists and Entrepreneurs (RUIE) receiving frequent mention. As can be observed in Figure 1, across the industrial sectors in which firms were surveyed, membership rates

were found to be strongly correlated with size. Over half of the firms with over five hundred employees (58%) belong to at least one association, whereas the comparable rate among firms with under one hundred workers is closer to one-fifth (21%).

The screening survey was used as the basis for a much more detailed survey of 606 enterprises, which was administered in the summer of 2004. Roughly half of the respondents, by design, were association members. In addition to the type of information that is often collected in firm-level research (e.g., the firm's organizational history, ownership structure, performance indicators, market strategies, manager's assessment of the business environment, etc.), a series of questions was asked about firms' interaction with business associations. Some in this latter category were directed at all firms, while some were designed solely for association members.

Simultaneously, a different survey was administered to the directors of two hundred business associations, each of whom was asked questions relating to the association's origin, membership, finances, internal governance, service structure, and interaction with public officials. In the absence of a single, official registry of associations, a variety of sources (including the screening survey) assisted in developing a representative sample of active associations. Both multi- and single-sector organizations were included in the sample, as were associations representing both the entire federation and sub-national units. Finally, given the large percentages of firms that in the screening survey had reported belonging to Chambers of Commerce and affiliates of the RUIE, 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 detailed survey, 69% are attached to just one, 22% to two, and 9% to three or more. Forty-seven percent of these member firms reported belonging to a regional or territorial Chamber of Commerce, 17% had joined one of the RUIE's independent, sub-national affiliates, 27% belong to another multi-sectoral association, and 32% are members of a sector-specific association, the plurality of which operate at the national level.



The surveys turned up little evidence that associations are in any sense exclusionary. Only one current non-member reported having been denied admission to an association. And of current members, only one-sixth knows of an instance 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 having declared bankruptcy), whereas a much smaller number related to a reported violation of the association's code of ethics. Only one-tenth of members knew of even a single circumstance in which a firm wanting to enter an association was denied the opportunity; of these, the applicant's poor reputation and/or "known violation of business ethics" was the reason cited most frequently.

The years during which members joined the association(s) to which they currently belong can be used to provide a rough sense of the trend in overall membership rates. As can be observed in Figure 2B, a small minority reports entering their association(s) before 1992 – i.e., during the Soviet era. And some memberships originated in the early post-reform years. The solid majority, however, were initiated in the past decade, with 2000 being the year most frequently cited. Considering that less than one-eighth of firms report having been a member of an association to which they no longer belong, Figure 2B suggests an increase in overall membership rates during the Putin era.

The multiple survey instruments enable approaching the question of whether the activity of associations is generally antithetical to or supportive of market-based development 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 non-members' sheds light on the nature and purposes of the organizations to which they belong.

On the basis of firm-level indicators relevant to Olson's thesis, it seems clear that Russia's business associations are not the simple distributional coalitions described in *The Rise and Decline of Nations*. As demonstrated in Table 2, compared to non-members, association members are more likely to have engaged in a series of actions typically interpreted as restructuring in response to market incentives. In the three years prior to the survey, greater percentages of members report having made investments in their workforce and capital stock; association members report having made investments in new technologies and modes of production at rates that exceed non-members; and they also demonstrate a greater proclivity for expanding trade ties.

The greater frequency of market-adapting behaviors among members strongly suggests that business organizations have not become a refuge for firms preoccupied with frustrating the development of markets or modifying their outcomes. This is not necessarily evidence of a causal relationship, for it is possible that another variable accounts for both a firm's choice to join an association and to engage in restructuring. Larger enterprises, for instance, in addition to joining associations at higher rates, might be more likely to both invest in their physical and human capital stocks and trade at greater rates. However, when econometric techniques are used to control for these observable inter-firm differences, the strong and

	Non-members (%)	Members (%)
Provided (re-)training of personnel	71.5	87.9
Invested in plant & equipment	61.4	77.9
Introduced new technologies/ modes of production	66.3	82.9
Increased either purchases or sales abroad	17.1	30.5

positive correlation between restructuring behaviors and membership in business associations remains (Pyle, 2006). This is to say that if we were to compare two firms that were alike in all observable respects but their membership in a business association, the one that belongs to a business association is more likely to have engaged in the behaviors highlighted in Table 2.

A causal relationship between association membership and restructuring behaviors is certainly possible. After all, the provision of services that support investment and trade expansion is a function attributed to business associations in a number of emerging market contexts (Doner and Schneider, 2000). But it is also possible that the difference we observe in Table 2 between members' and non-members' behavior is a product of a "selection bias." That is, the difference may be less a function of services received from associations

than of some unobserved factor that influences both a firm's choice to join an association and to engage in the four highlighted behaviors. For instance, it is at least conceivable that "dynamic" or "highly motivated" managers are more likely to restructure their firms and to join associations for, say, reasons of prestige. We still, in other words, confront the

question as to whether the differences we see in Table 2 are a product of organized business, per se, or the businesses that organize. One way to sort out the answer here is to use the surveys to investigate the services that associations actually provide and that member firms actually receive to see if they are consistent with the evidence highlighted in Table 2.

Associations' Services

Nearly two-thirds of the surveyed managers report that their association offers at least some innovation or investment related services. Table 3 highlights some of these, noting first the percentage of surveyed associations that report offering a specific service as well as the managers' perception of the value of that service to the firms that use them. The final column

	Associations offering (%)	Value to members that use (1-5)*	Members that have used (%) **
Assistance in organizing and administering trade fairs and exhibitions relating to new technologies	48.0	4.1	11.2
Assistance in developing collaborative partnerships with firms engaged in innovation	47.5	4.0	6.9
Assistance in organizing meetings with potential investors	45.5	4.2	4.3
Recommendations that allow firms to secure credit	37.0	4.1	5.3
Consulting services relating to use of new technologies	35.0	3.9	5.2

* As perceived by association's managers of those associations that offer; 1=not important, 5=quite important
 ** Of members that invested in plant and equipment or introduced new technologies in previous 3 years

Table 4. Services related to training and recruitment of personnel

	Associations offering (%)	Value to members that use (1-5)*	Members that have used (%) **
Assistance in training specialists (e.g., managers)	56.5	4.3	16.2
Assistance in training skilled workers	40.5	4.0	8.7
Assistance in selection/recruitment of personnel	36.0	3.9	4.2
Certification of personnel	19.5	3.7	5.3
* As perceived by association's managers of those associations that offer; 1=not important, 5=quite important			
** Of members that offered workforce training in previous 3 years			

lists the percentage of member firms that report having received that particular service from an association to which they belong. Most of the listed services involve facilitating contacts between member firms and other parties. Nearly half of the associations surveyed, for instance, help organize and administer technology-related fairs and exhibitions. Such events, in fact, were cited more frequently than business partners, competitors, or scientific research institutes as sources of information on new technologies and modes of production. A similar percentage of associations helps initiate collaborative partnerships for the purposes of technological improvements. The value of these sorts of services is understandable given that many Russian enterprises began the transition with outdated capital stocks. Perhaps access to such services provides one explanation for why member firms report using technologies that exceed the domestic average in their sector at roughly twice the rate of non-members.

Associations also facilitate external financing by arranging meetings of members with investors and by providing recommendations as to members' creditworthiness. Of the surveyed firms that report having made investments in plant and equipment during the previous three years, association members were more apt to have used bank financing. And in another example of associations acting as information intermediaries, an officer in a large St. Petersburg association explained to me how his organization, having become familiar with hundreds of local businesses in the process of providing them with consulting services, assists foreign investors in identifying the most investment-worthy firms.

Two-thirds of the associations surveyed report having provided some services in the area of training and recruitment. As noted in Table 4, over half offer programs to train managers and consider these among the most valuable services they offer. A somewhat smaller percentage sponsors programs geared toward skilled workers. Respectively, one-sixth and one-twelfth of member firms that had provided any personnel training during the three year period prior to the survey had utilized these services. Small percentages of these firms also report having used associations to identify and recruit reliable employees.

Turning now to evidence that business associations promote trade, roughly three-quarters (71%) of associations offer some sales and/or purchasing related services. As was true for the dissemination of information on new technologies, Table 5 shows associations' role in organizing trade fairs is seen as important for helping firms locate new business partners. In addition to these events, which serve as a hub bringing together buyers and sellers from often 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 report providing services related to "market research" and, more specifically, to demand conditions in output markets. Roughly half of associations, as well, offer direct assistance in the search for new clients, both foreign and domestic. Some of the information services that associations provide are designed to relieve problems of identifying both the quality of goods and the reliability of prospective

Table 5. Services related to market research and locating new business partners			
	Associations offering (%)	Value to members that use (1-5)*	Members that have used (%)
Assistance in organizing and administering trade fairs and exhibitions	63.5	4.5	9.6
Information on demand conditions in product market	54.0	4.1	4.6
Information on reliability of potential trade partners (foreign or domestic)	52.0	4.2	19.4
Assistance in search for foreign customers	48.0	4.0	1.8
* As perceived by association's managers of those associations that offer; 1=not important, 5=quite important			

trade partners. A number of associations try to address potential customers' difficulties with verifying product quality by providing informal consulting services or more formalized certification. In an interview, an official at the Chamber of Commerce and Industry of the Russian Federation, in fact, 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.

Enterprise Performance

Of association members, 72% report having experienced an increase in output over the three years prior to the survey, compared to only 58% of non-members. And whereas 26% of association members note a "significant improvement" in their financial performance over the same period, only 18% of non-members did. As before, we should be cautious about interpreting such numbers as evidence of a causal relationship between association membership and enterprise performance. But given the evidence that associations are providing services that promote business development, it is certainly not unreasonable to suspect that the performance-related impact of joining the association is non-trivial.

Conclusions

The rather modest objective here has been to address two misconceptions about the activities of business associations in post-communist countries. The first – that post-communist business associations are weak and ineffective – has been both implicit in the lack of

attention that they have received from commentators and explicit in some of the analysis that has addressed their impact. One of the most convincing pieces of evidence that the sampled associations in Russia are generally neither weak nor ineffective is that large numbers of firms have voluntarily joined their ranks, with the rate of inflow appearing to have increased in recent years. Many, moreover, report receiving services (only a fraction of which can be highlighted in this brief article), that appear to have some positive impact on their behavior. In short, the managers' responses make explicit, and their willingness to absorb association dues and fees imply, that their enterprises have benefited from association membership.

The precise nature of this benefit goes to the heart of the second misconception. Mancur Olson's vision of associations as organizations that assist firms primarily through services that redistribute wealth, rather than generate new wealth, does not fare well in the face of the evidence from Russia. Judged on the basis members' behaviors, the associations that have emerged in Russia do not closely resemble the organizations that Olson described. Although some of the evidence presented here suggests that – to some degree, at least – membership matters, the critique of Olson's framework is not contingent on this being the case. Say, for the sake of argument, we were to accept that the difference in behavior of members and non-members was not the direct result of business organizations' activities but rather of unobserved differences between firms that join and those that do not. Even if this were the case, it seems unlikely that firms that are more interested in pursuing market-adapting behaviors would join organizations – of the sort postulated by Olson – that are fundamentally

opposed to those very behaviors. That is, it makes little sense for firms that are investing in technology or expanding their trade ties to join an organization that is somehow hostile to those objectives.

The conclusion here that Russian associations actively promote market-adapting restructuring or, at the least, attract firms that are so inclined, was not necessarily obvious *ex ante*. Since liberalized markets have posed a survival threat to many Russian enterprises, it would not necessarily have been surprising to have found that business organizations had grown up to stifle their development or modify their outcomes. Instead, at least in part, post-communist business associations have assumed a role in promoting flows of information and knowledge that allow firms to grow and nascent markets to perform more effectively.

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