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Russia

The Role of Business Associations in Post-Soviet Russia

Topic of Research and Countries Visited

Since the break-up of the Soviet Union and the formal introduction of markets, a significant percentage of Russian firms have helped form and/or joined business associations – non-commercial organizations designed to promote the general interests of their membership. Little, however, has been published about the range of these associations' activities or the manner in which they have affected business development. In the spring of 2004, I administered a large survey to managers of both Russian associations and enterprises whose purposes included (1) identifying the factors that influence a firm's decision to become a member, (2) assessing the private value of the services they receive, (3) exploring the determinants of inter-associational variation in the mix of those services and (4) producing an assessment of whether associations help or hinder the development of transparent and competitive markets. The STG grant allowed me to return to Russia to conduct interviews (with both Russian researchers and members of the business association community) that shed light on important questions that arose during the preliminary analysis of the survey responses. I was also able to use the time in Russia to meet with the organization that had conducted the survey on my behalf and view and ask questions regarding the hard copies of the surveys.

Relevance and Contribution to Field

Over ten years ago, Russia was poorly endowed in terms of the rules, enforcement mechanisms and organizations that would help transmit market information, enforce property rights and contracts, and manage competition. And it has been this institutional poverty that, in part, has explained its generally poor economic performance in the post-Soviet era. While much attention has rightly been paid to questions of why the development of market-supporting institutions has not been fully or consistently promoted by public policy, much less attention has been focused on the grassroots-level development of substitutes to fill this institutional void. If, indeed, market-supporting institutions are so valuable, it is natural to ask to what extent non-state actors have been willing and able to create them.

While it has long been recognized that in many environments business associations pursue objectives that benefit their members to the net detriment of society, recent research has highlighted how, particularly in countries with weak states, they provide members with services (institutions) that enhance the performance of markets and create net social benefits. In particular, they have been credited with: (1) resolving complex coordination problems among businesses – such as helping to set and enforce industry standards and establishing mechanisms to resolve inter-firm disputes; and (2) collecting and disseminating among businesses mutually beneficial information – such as the identities of reliable trade partners as well as marketing and technological advice. Besides pointing to their important role in the development process, this research

suggests that evaluating the nature of their economic impact is more complex than perhaps previously thought.

What little has been published relevant to business association activity in Russia (and elsewhere in the post-Soviet world) has been tangential to these matters noted above; collectively, moreover, the existing research has produced a murky picture as to both the reasons for business association formation and their net economic impact. Most important, this research has been based exclusively on surveys of manufacturing firms that were asked no more than a question or two about their membership in a business association. To my knowledge, my project is the first in the post-Soviet space to make the business association itself the primary unit of analysis.

Approach and Research Methodology

Grant funding from three sources enabled me to put together an ambitious program that included the work-up and design of two surveys during my spring (February-June) 2004 sabbatical in Moscow (see attached survey instruments). After their completion in early May, I turned them over to the Levada Analytical Centre who administered them on my behalf – one to the directors of 200 business associations and the other to the managers at 606 industrial enterprises. Both achieved broad regional coverage with respondents representing over half of the country's 89 territorial subjects. In early August, the Levada Centre sent me two large databases, each with in excess of 600 variables for each of the 806 respondents (606 firms plus 200 business associations).

While in Russia during the spring of 2004, I also collected information from a wide variety of other sources (e.g., interviews with Russian academic experts and business association officials, written materials from the associations themselves as well as other Russian and English language secondary sources). I have begun to synthesize these materials and use them to provide context for the some of the initial findings from the surveys. I am now working on completing the first of *at least a half dozen academic articles* that this project is sure to generate.

The STG grant allowed me to investigate further and provide context for some of the interesting results that I turned up in the initial exploration of the survey data. To that end, I met with a number of people while in Moscow with knowledge of the business association community and how it has developed. In this project, I continue to benefit from the collaboration of Dr. Irina Perova and the organization for which she works, the Coordinating Council of Employers' Associations of Russia – an association of several dozen leading business associations. Together, we have begun work on an article highlighting some of the main findings from the research project.

Summary of Research Findings and Preliminary Conclusions

It was not clear to me *ex ante* what types of firms would have joined Russia's voluntarily comprised business associations. Would they be those that seem to have adapted most quickly to the market or just the opposite? My preliminary results point clearly in the direction of the former. Controlling for a host of firm-specific characteristics (e.g., size, branch, property type, etc.), members of associations are much more likely to have engaged in strategies that suggest adaptation to market rules. These strategies include recent expansion of trade activity and investments in capital repair, new technologies and worker training. I am able to present at least some evidence that these findings are not exclusively the result of the difference in "type" of firms that join associations; part of this difference seems to be due to the activities of the associations themselves. That is, it's not just the *businesses that organize* that account for the difference; it's also *organized business*. These conclusions, I should caution, are preliminary.

Suggestions for Future Research

My hunch is that the preliminary conclusion alluded to above may be highly time sensitive. And I hope, some day, to return to Russia to gauge the impact of associations at a later stage of development after other market supporting institutions have had the opportunity to evolve further. It would also be useful, I think, to carry out the sorts of surveys that I put together in other countries of the former Soviet Union.

Recommendations for the US Policy Community

As noted above, no other research agenda in the post-Soviet world has made the business association itself the unit of analysis. Because of this, and because of the theoretically ambiguous net economic impact of associations, my project is well placed to influence discussions of public policy. If, for instance, associations with certain characteristics are found to provide services with broad social benefits, enlightened public policy might seek to promote their formation. On the other hand, if some associations are shown to concentrate on services that ultimately undermine social welfare, policy might best be designed to inhibit (or, at least, not encourage) their development.

Although, I am not yet ready to draw distinctions among associations, I believe the information that I have collected allows me to conclude that those firms that have a strong interest in the continued development of transparent markets populate business associations. Moreover, business associations seem to be providing services that support the development of markets and, as such, compensate for institutional deficiencies elsewhere. They may thus be worthy recipients of aid provided through business infrastructure and civil society support programs.