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Ways of lobbying in transition economy: the comparison of effectiveness.

Introduction

This working paper extends the study by Timothy Frye (Frye 2002). Frye explored how membership in business associations influenced chances to succeed in lobbying in 2000. The result of the study is that members of associations lobby more effectively. However according to our data members more often use both associations and other channels to promote their interests. So the question is whether associations provide lobbying opportunities or members succeed because they use other lobbying channels.

Our data allows us deal this problem. Moreover we would compare the effectiveness of the most popular ways that Russian companies use to promote their interests.

The description of data

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

The survey took place in late 2010. It was attended by 1013 companies in 6 industrial sub-sectors (mechanical engineering, metallurgy, chemical, woodworking, light industry and food industry) and 4 non-industrial sectors (information technology, trucking, retail, and travel services). The survey covered cities and towns of a different status, which were located in 61 regions of Russia. About 9% of firms were located in Moscow, 9% were located St. Petersburg[1], more than half (53%) were located in regional capitals. The rest were companies located the peripheral cities, small towns and villages.

The industrial enterprises account for about a half of the sample in second survey. The surveyed companies have the following size distribution. One third of industrial companies surveyed have 100-250 employees, one third of industrial companies have 251-500 people, and the rest have more than 500 people. Non-industrial companies are significantly smaller: 46% have less than 25 employees, 30% - from 26 to 100 employees.

The level of companies that are members of at least one business association is about 38%. Respondents have listed the names of all the associations, which their company participate in. This approach allows the use of additional information on associations. In particular, it gives more opportunities to compare the effect of membership in associations of various types. At the current stage of the study we have identified only national association without sector limitations. National sector specific and regional associations are for a while joined into one category. Level of membership in associations of various types is provided in table 1.

The respondents were asked two questions concerning lobbying activities of their firms. The first question they listed all the ways in which their company is trying to influence the

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[1] Moscow and St. Petersburg are two big cities of Russia. These are the only cities that have constitutional status «cities of federal importance».

content of new laws or regulations that are important to their business. The provided optional answers were "via business associations", "via personal contacts with officials", "via media" and "via personal contacts with influential persons (other entrepreneurs, public figures- anyone who does not belong to the officials)". The summary of respondents answers is provided in table 3. We've generated dummy variables *lobbying_BA, lobbying_officials, lobbying_media, lobbying_infl_pers* that take value 1 if company uses corresponding channels of lobbying.

The second question evaluated the efficiency of lobbying activities of firms. On a three-point scale ("almost always", "rarely", "never") respondents estimated how often their company succeeded to influence the final content of new documents issued at the federal, regional and local level. The distribution of answers is given in the table 2. We've constructed the index (*lobbing_success*) that is based on the answers to the second question. It takes a values from 0 to 3 (more efficient lobbyists have higher index). For example if company have not tried to influence the content of documents or company never succeeded at any level, the index takes a value of 0, if it has succeeded very often at least at two levels of authority, the index took a value of 3.

The major variables of this study are "*lobbing_success*" index and dummies based on the information about membership in business associations and about the ways of lobbying activities used by companies. The description of control variables is provided below.

Survey involved companies engaged in different activities and are located both large cities and towns. To take into account differences between sectors and the impact of the enterprise location, we include dummy variables for the sector and settlement status in the regression equations.

One might expect that larger firms can more effectively promote their interests. At the same time the rate of membership in associations is positively correlated with size (Pyle 2007, Golikova 2009, our data also confirms this thesis). This may lead to correlation between membership in the associations and the effectiveness of lobbying without causal relation. To avoid this we should control for the size of the company. Since the average size of firms depends heavily on the sector, we used the logarithm of the number of employees of the company and sector dummy variables.

<div align="center">The results of regression analysis</div>

To study effect of membership in associations on the effectiveness of lobbying we've estimated the following models.

In the first model we compared the effectiveness of different ways of lobbying.

$$lobbying\_success_i = \beta_0 + \beta_1 * lobbying\_BA_i + \beta_2 * lobbying\_officials_i + \beta_3 * lobbying\_media_i + \beta_4 * lobbying\_infl\_pers_i + \beta_5 * ln(employees_i) + sector_i + city\_type_i + \beta_6 * controls_i + \varepsilon_i$$

lobbying_success_i is the lobbying success index described above.

lobbying_BA_i, lobbying_officials_i, lobbying_media_i, lobbying_infl_pers_i are dummy variables that take value of 1 if the company tried to lobby via business associations, via personal

contacts with the officials, via media and via personal contacts with influential persons (not officials).

In our analysis we would compare values of coefficients within specifications and between different specifications. Literature on the technique of empirical analysis (e.g. Hoetker 2007) argues that that the use of probit models in this case is quite complicated. So we've made the estimations by ordinary least squares method.

The estimation results are given in table 4. The first column of the table presents the results of the effectiveness of various channels of lobbying. The most effective are the two most common ways: through consultation with government officials and a business association. It is interesting that both methods give quite similar efficiency.

As it was mentioned, quite often companies use both officials and associations to promote their interests. Therefore intersection term was introduced in the equation. Results in column 2 indicate that the use of both channels is more effective than just one, but the efficiency is not additive. The effect of membership in associations is not just the fact lobbying by the association. Members of business associations may better use other channels of lobbing, than the companies that are not members. When we included the dummy for membership in association the corresponding coefficient appears to be rather high and significant (column 3).

To study this effect we've introduced in the equation the cross variables *lobbying_officials*BA_membership, lobbying_media*BA_membership lobbying_infl_pers*BA_membership*). The results are presented in column 4. Lobbing via contacts with influential persons is effective only for association members. These intersections are the result of membership. So in the analysis of second equation they would be excluded. We also would exclude channels of promoting companies interests that turned out to be inefficient.

Columns present of robustness check the obtained results. The position of the respondent may influence the way who he or she answered the questions (column 5). If one of the company managers is a board member of the association the company may have some lobbying advantages (column 6). Regional fixed effects end errors clustered by regions account for difference in regional conditions (columns 7-8). Estimated values of the variables of interest have not changed when we include the controls.

Finally we tried binary probit estimation ("*lobbying_success*" index is turned to binary variable "succeeded at least ones/never succeeded"). The results in column 9^2 do not change dramatically.

In the second equation estimated the effect of membership in associations of various types on the effectiveness of lobbying activities.

$lobbying\_ success_i = \beta_0 + \beta_1 * BA\_memb_i + \beta_2*lobbying\_officials_i + \beta_3*lobbying\_media_i + \beta_4* lobbying\_infl\_pers_i + \beta_5*ln(employees_i) +sector_i + city\_type_i+ \beta_6*controls_i +\varepsilon_i$

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[2] marginal effects are reported

BA_memb is a business association membership dummy or a set of dummy variables that characterize company membership in associations of different types. The other variables are described above.

The second equation allows us to compare the effectiveness of the lobbying activities via the associations of different types. The equation includes variables that describe the companies' use of lobbying channels, which are not connected to the participation in associations. This is an attempt to overcome the previously mentioned problem of selection. As before the main calculations were performed by ordinary least squares method.

Table 5 presents the results of estimation of the second equation. Columns 1-5 present the results of calculations without covariates for use of lobbying channels, which are not connected to membership. The columns compare the effect of membership in associations of different type with such covariates.

Membership in the Chamber of Commerce does not give any advantage in lobbying activities. This is consistent with the evidence provided by the interviews that greater focus of CCI is on providing services to companies and less on promoting the interests of enterprises. Membership in major national multi-sectoral business associations and their branches, and membership in associations of unclassified array (which include national sector specific associations and regional associations) allows to lobby much more effectively.

It's important to note that given approach does not allow to compare the effectiveness of lobbying via the associations of various types with the effectiveness of use of other channels, e.g. personal contacts with the officials. The values of coefficients that describe the influence of the associations of different types are the average (controlling for size, sector, location, company, etc.) effects for all association members, both lobbying and not lobbing via the associations. At the same time, the effectiveness of use the other channels (not connected to the participation in associations) measured only for those who use these channels. Therefore, the coefficients for the effectiveness of the other channels should to be higher than the effects of membership in associations of different types.

A potential solution of this problem is to include intersections of dummy for the members of business associations of each type and dummy for lobbying via associations. However this approach raises a number of problems.

One of the problems comes from the companies that participate simultaneously in associations of different types (in the current classification the proportion such companies is about 32% of all association members). In the case such companies it's impossible to determine exactly the association of what type is used.

The data indicates that members of several associations more often promote their interests via business associations. More than half of companies (55%) that choose this way of lobbying participate associations of at least two types. This lead to a very high correlation between discussed intersection variables and may distort the results.

Intersection coefficients would be estimates of lobbying efficiency on conditions that the attempt to lobby actually took place. But low efficiency of promoting interests via particular

association can appear not only in the fact that lobbying efforts have been less successful, but also in the fact that companies do not even try to lobby. Intersection variables allow to catch only the first effect. We've tried specifications with of intersection variables, but after weighting the pros and cons we've decided not to include these results in the current working paper.

Conclusion

This working paper presents first results of the project. We've obtained the evidence that personal contacts to the officials are not the only way of promoting interests of companies in Russia. The data indicates that business associations also offer lobbying opportunity to Russian companies. Moreover the businessmen estimate the effectiveness of lobbying via associations as high as via personal contacts with the officials.

Further we plan to answer the following questions. What are the features of association that provides better lobbying opportunity? What companies prefer personal connections lobbying and what companies lobby via associations? How do local conditions influence lobbying potential of associations and the choice of companies?

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Appendix

Table 1 Membership in business associations of different types.

	The portion of members
Members of national multisector BA	7%
CCI members	24%
Members of national sector specific or regional BA	21%
Membes of any BA	38%

Table 2. Successfulness of lobbying on different levels (number of companies)

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

Table 3. Ways of promoting the interests of the company

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

Table 4. The effectiveness of different ways of lobbying (Standard errors in brackets).

	OLS	OLS	OLS	OLS	OLS	OLS	Panel (fixed effects)	OLS (clustered)	Binary probit
COEFFICIENT	lobbing_succes index								lobbing_succes dummy
lobbying_BA	0.859***	1.027***	0.995***	1.010***	1.008***	1.004***	1.011***	1.010***	0.627***
	[0.111]	[0.134]	[0.135]	[0.136]	[0.135]	[0.134]	[0.154]	[0.154]	[0.0696]
lobbying_officials	0.824***	0.956***	0.942***	0.864***	0.871***	0.857***	0.840***	0.864***	0.604***
	[0.102]	[0.116]	[0.115]	[0.155]	[0.156]	[0.154]	[0.166]	[0.172]	[0.0767]
lobbing_officials*lobbying_BA		-0.473**	-0.467**	-0.556**	-0.606***	-0.544**	-0.545**	-0.556**	-0.0389***
		[0.216]	[0.216]	[0.226]	[0.227]	[0.225]	[0.221]	[0.217]	[0.0113]
lobbying_media	0.413**	0.433***	0.431***	0.386	0.393	0.379	0.326	0.386	0.107
	[0.161]	[0.160]	[0.160]	[0.290]	[0.290]	[0.294]	[0.320]	[0.323]	[0.113]
lobbying_infl_pers	0.234	0.251	0.246	-0.0149	-0.0108	-0.041	-0.005	-0.0149	0.06
	[0.180]	[0.179]	[0.178]	[0.304]	[0.303]	[0.297]	[0.281]	[0.300]	[0.103]
BA_membership			0.092**	0.048	0.031	0.047	0.038	0.048	0.039**
			[0.0404]	[0.0312]	[0.0310]	[0.0316]	[0.0376]	[0.0293]	[0.0198]
lobbing_officials* BA_membership				0.185	0.164	0.177	0.205	0.185	-0.003
				[0.205]	[0.208]	[0.206]	[0.223]	[0.220]	[0.0217]
lobbing_media* BA_membership				0.055	0.026	0.0573	0.15	0.0551	-0.011
				[0.348]	[0.346]	[0.350]	[0.368]	[0.378]	[0.0309]
lobbing_infl_pers* BA_membership				0.364	0.37	0.402	0.379	0.364	0.004
				[0.367]	[0.365]	[0.360]	[0.353]	[0.356]	[0.0562]
BA_board_memb					0.235*				
					[0.142]				
Respondent's position						YES			
	-0.002	-0.006	-0.014	-0.013	-0.015	-0.014	-0.006	-0.013	0.003
ln(employees)	[0.022]	[0.021]	[0.023]	[0.023]	[0.023]	[0.022]	[0.023]	[0.022]	[0.006]
city type	YES	YES	YES	YES	YES	YES	YES	YES	YES
sector	YES	YES	YES	YES	YES	YES	YES	YES	YES
holding	YES	YES	YES	YES	YES	YES	YES	YES	YES
foundation_time	YES	YES	YES	YES	YES	YES	YES	YES	YES
Observations	932	932	932	932	932	932	932	932	932
R-squared	0.554	0.563	0.565	0.57	0.573	0.572	0.547	0.57	-

Table 5. The effectiveness of lobbying by different associations (Standard errors in brackets).

	OLS	OLS	OLS	Panel (fixed effects)	OLS (clustered)	OLS	OLS	OLS	Panel (fixed effects)	OLS (clustered)
COEFFICIENT	lobbing_succes_ord3									
national_multisector BA_memb	0.297**	0.272*	0.283*	0.253	0.297*	0.243**	0.234*	0.240**	0.221*	0.243*
	[0.150]	[0.146]	[0.148]	[0.152]	[0.157]	[0.123]	[0.123]	[0.122]	[0.129]	[0.127]
CCI_memb	0.172**	0.125	0.166**	0.176*	0.172*	0.056	0.041	0.052	0.068	0.056
	[0.0837]	[0.0820]	[0.0841]	[0.0995]	[0.0921]	[0.0673]	[0.0683]	[0.0674]	[0.0824]	[0.0758]
national_sector and regional BA_memb	0.435***	0.330***	0.424***	0.408***	0.435***	0.257***	0.220***	0.254***	0.246***	0.257***
	[0.0866]	[0.0856]	[0.0863]	[0.0948]	[0.0946]	[0.0692]	[0.0680]	[0.0688]	[0.0720]	[0.0715]
lobbying_officials						0.956***	0.930***	0.950***	0.923***	0.956***
						[0.107]	[0.109]	[0.108]	[0.104]	[0.105]
lobbying_media						0.825***	0.786***	0.822***	0.802***	0.825***
						[0.189]	[0.191]	[0.190]	[0.178]	[0.171]
BA_board_memb		0.786***						0.315*		
		[0.212]						[0.179]		
Respondent's position			YES					YES		
ln(employees)	0.0195	0.0115	0.0251	0.0339	0.0195	-0.026	-0.0274	-0.0258	-0.0139	-0.026
	[0.0314]	[0.0292]	[0.0311]	[0.0288]	[0.0309]	[0.0229]	[0.0226]	[0.0227]	[0.0232]	[0.0220]
city type	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
sector	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
holding	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
foundation_time	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
Observations	892	892	892	892	892	892	892	892	892	892
R-squared	0.14	0.18	0.149	0.129	0.14	0.441	0.447	0.443	0.399	0.441