Choosing Channels of Influence in Hybrid Regimes:

Direct and Indirect Lobbying across the Russian Federation[1]

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1.Introduction

A rich political economy literature describes various ways in which firms influence the design and enforcement of laws, rules and regulations germane to their business activities. The degree to which such activities promote social welfare is ambiguous, however. One oft-cited branch of theoretical work portrays policymaking as a set of auctions between self-interested officials and firms (Grossman and Helpman, 1994) or as a process of trading votes for political influence (Shleifer and Vishny, 1994), which can lead to socially sub-optimal results. Another tradition points to business influence deriving, perhaps more benignly, from lobbying activities that mitigate informational asymmetries faced by policymakers (Downs, 1957). What is common in all brnaches of the literature is a focus on the nature of exchange between those supplying and those demanding policy.

A related literature draws attention to strategic choices that firms must make in selecting which of multiple potential channels and/or mechanisms allow them to most effectively influence policy. One key insight is the need to distinguish between *inside* lobbying, encompassing direct interactions between special interests and policymakers (private meetings with representatives, testifying to government committees, contacting agency personnel, *etc*.), and *outside* lobbying, involving efforts of groups to pressure elected officials indirectly through their constituents (Kollman, 1998). Another recent contribution to the literature focuses on the choice that firms face between *lobbying* and *corruption*; because the latter is illicit and based on difficult-to-enforce contracts, the induced policy changes may be more easily reversed (Harstad and Svensson, 2011). In a somewhat related manner, another contribution frames business-state relations as a choice between *capture* and *influence*, where firms either take control of the state or must pay for influence (Hellman *et al.*, 2003). While such contributions have been helpful in understanding some of the basic strategic motivations of firms, however, they have tended to shy away from empirical tests of how institutions shape firm lobbying strategies.[2]

In this article, we make a contribution to this strand of the literature by seeking to make a rather straightforward point that the specific channels that firms choose to exploit will be sensitive to their political environments. We contrast firms that choose to influence policy *directly*, through un-mediated contacts with executive and legislative branch personnel, and those that do so *indirectly*, through lobby group acting as intermediaries. Making a distinction that we believe has been poorly developed in the literature, we sketch out a simple theory in which institutions condition the relative costs of direct and indirect lobbying, proposing two possible mechanisms for this relationship. On the one hand, firms' assessment of their costs and benefits may be shaped directly through the relative costs of acquiring direct connections to politicians in highly versus less concentrated political systems. On the other hand their assessments may be indirectly shaped by the preferences of politicians in relatively more democratic settings for certain types of policies that help their reelection chances. Drawing on work on special interest groups in politics, we argue that encompassing interests should be more favored than narrow ones in more competitive political climates, where politicians are more easily held accountable by the populace (Olson 1965; Ferejohn 1986).

We test our theory with recently collected survey evidence from the Russian Federation. Exploiting the substantial variation in regional governance across Russia and a new survey of Russian firms, we find evidence that firms in more politically competitive environments are more likely to use business associations when trying to influence policymakers. We then attempt to arbitrate between our two proposed mechanisms by exploring a novel survey of business

[2] For an important exception which looks at the lobbying/corruption strategic choice, however, *see* Campos and Giovannoni 2008.

associations. We find that business associations with narrower membership bases, and therefore fewer constraints to representing narrower interests, are more likely to invited to participate in the policy making process in less politically competitive regions. We argue that this provides some evidence for our accountability story.

Our paper is organized as follows. Section 2 lays out our theories of lobbying channel choice and reviews the literature relating to reasons firms might choose to lobby government officials, either directly or indirectly, in less democratic settings. Section 3 then provides a brief review of the evolution of Russian lobby groups in the reform era. Section 4 reviews the survey of Russian firms that we draw on for our empirical analysis and discusses the methodology. Section 5 presents are main results, attempts to distinguish more carefully between our competing stories, and provides a number of robustness checks on our main results. Section 7 concludes with a discussion of implications and future grounds for research.

2. Hybrid Regimes and Lobbying Behavior

Regardless of institutional environment, firms choose when and how to devote resources to attempts to influence the design and enforcement of laws, rules and regulations germane to their business activities. Although the choice of lobbying is important and the subject of a great deal of empirical work, in this paper we focus primarily on the later question. Following previous work on firm lobbying, we argue that firms' lobbying menu consists of two fundamental strategies, which roughly correspond to the logic of "make or buy" decisions in transaction cost economics (Coase 1937; de Figuieredo and Tiller 2000). Those that approach government officials ***directly*** implicitly choose to "make" lobbying by developing their own, independent capacity and paying costs to set up research apparatus, hire lobbyists, and forge connections with politicians themselves. Those who make use of intermediaries, such as business associations, pursue their policy objectives ***indirectly*** and can instead be thought of as "buying" lobbying capabilities.[4] In this case, firms outsource their lobbying needs to a third-party, usually business associations, who specialize in providing lobbying services to multiple clients and impose collective costs for their services.[5]

In the abstract, firms' choices of lobbying strategy depend upon the relative costs and benefits of each. We assume that for firms, the demand side, the choice to engage in lobbying (or not) is a simple function of the expected gains from lobbying net any costs incurred. Politicians, the supply side, exercise some control over firms' utility, as their probability of adopting measures favored by firms likely depends on the benefit firms are seeking and the cost to politicians in terms of diminished vote share. If politicians are unwilling to pass the types of policies firms favor, then firms will not waste time lobbying them.

How do firms evaluate the benefits of policy and which types of policy do they tend to pass. In order to focus our discussion on the relative costs of direct versus indirect mechanisms, we assume that the value to a firm of a given lobbying-induced policy change -- tax breaks, more favorable regulation, public or club goods, *etc.* --is independent of the regime type and lobbying mechanism the firm chooses. Instead, the relative value to a firm of any particular policy is influenced by the extent to which the benefit provided is specific, that is tailored to the interests of a firm. The more specific the benefit, the more utility firms derive. To preview our argument, we suggest that institutions matter for lobbying strategies due to how they influence firms' perceptions of relative costs and benefits. Better institutions make firm-specific lobbying alternatives less

[4] The choice between direct and intermediated mechanisms is not unlike that between "lobbying" and "corruption" laid out in a literature depicting them as alternatives for influencing policy. Similar to our characterization of intermediated influence, Harstad and Svensson (2011) describe lobbying as necessarily more transparent and sensitive to the interests of multiple actors than corrupt exchanges between firms and officials.

[5] Although we treat the decision to lobby directly or indirectly as binary for the purposes of theory, we acknowledge that firms mix their strategies in practice. In this paper, we focus on distinct choices between direct and indirect strategies in order to more clearly model incentives and how they are conditioned by institution. In our analysis, we attempt to control for this problem more directly by introducing controls for firms that engage in mixed-strategies.

desirable by increasing the costs of forming connections to politicians or making it harder to convince politicians to cater to specific interests.

For firms, there are two primary considerations when calculating the costs of lobbying activity. In order to engage in lobbying behavior in the first place, firms must pay certain sunk, fixed costs – lobbyists, offices, research, etc. – in order to set up their lobbying capability. After paying these fixed costs, firms must then spend more resources in order to gain access to politicians and secure their support for particular policy initiatives. Firms need not bear the costs of lobbying – both fixed and continuing – alone, however. Instead, they can choose to outsource the nuts and bolts of lobbying activity to specialty organizations that can spread the costs of lobbying amongst multiple firms. On the benefit side, firms can lobby for a variety of different types of policies, which range from particularistic (firm-specific) benefits such as government-backed loans to more encompassing benefits, such as a comprehensive trade treaty. While we do not doubt that firms derive gains from successfully passed encompassing benefits, we argue that all else equal, firms benefit the most when politicians pass laws that favor them exclusively.

Although firms would prefer to use business associations to lobby for specific benefits for themselves, the nature of business associations prevent this and force a cost-benefit trade-off. The more firms outsource lobbying to business associations, the more individual firms become constrained by the preferences and objectives of their fellow association members, limiting the types of policy changes that can be pursued. Within a multi-member organization, firm-specific or particularistic grievances are more apt to be crowded out by issues that have broader appeal to the membership at large (Smith, 2010). In the limit, an organization whose membership is fully encompassing should not push for policies that impose net social costs, limiting what firms can accomplish (Olson, 1965, 1982). The difficulty for business associations to lobby for specific policies creates a clear cost-benefit trade-off for firms. On the one hand, firms who desire policy that imposes widespread social costs or that are of narrow benefit may not be able to take advantage of the cost-sharing mechanisms inherent in indirect lobbying via associations. On the other hand, firms that choose to lobby directly have fewer opportunities for cost sharing and must bear lobbying costs themselves. The advantage, however, is that firms making direct appeals are not constrained by the preferences of other actors and can freely pursue any policies they want.

What are the implications of this framework for variation in lobbying strategy across different political environments? We have no *a priori* beliefs about the connection between a firm's decision to try to influence the design and enforcement of laws, rules and regulations and their political environment. We do, however, argue that the mix of ***direct*** and ***indirect*** mechanisms they choose are sensitive to the costs of lobbying, which in turn vary according to the political environment. We offer two possible explanations for this phenomenon. First, the costs of firms to lobby under different institutional set ups is straightforwardly connected to the number of actors that must be persuaded in order to lobby successfully (Tsebelis 1995, 2002; Londregan 2000). The more concentrated political power is, the fewer costs need to be paid in order to establish connections with politicians and the fewer actors need to be persuaded. Conversely, where political power is less concentrated, firms must often persuade relatively larger numbers of actors of the merits of their proposals. As more actors need to be lobbied, lobbying costs increase.[7]

Thus, *ceteris paribus*, we argue that more open and democratic settings should have less concentration of political power than more closed and autocratic settings, due to the larger likelihood of competing political interests winning power and the need to create larger winning coalitions (North and Weingast, 1989; Bueno de Mesquita *et a*l., 2003). Therefore, as political

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[7] Note that in this paper we abstract away from the question of whether the amount of resources required to persuade individual politicians to support policy vary. It could be the case that in less concentrated settings, individual politicians make use of monopoly power to extract more from firms than individual politicians in more concentrated settings.Unfortunately, our data does not allow us to directly gain purchase on this important question.

environments become more competitive and political power becomes diffuse, lobbying becomes more costly to firms. This framework suggests that greater political openness and competition promote more lobbying through intermediaries that help defray the lobbying costs that any single firm faces. Less open and competitive politics, with fewer veto players to persuade, predisposes firms to approach government officials directly.[8]

Alternatively, the impetus behind variation in lobbying strategy might also come from the politicians' side. Politicians in settings with better political institutions are more constrained by their populations than those in weaker settings (Ferejohn 1986; Adsera and Boix 2002). These constraints mean politicians find it much harder to focus on the provision of particularistic benefits, because it is cheaper to provide public goods broadly in order to gain and maintain support (Bueno de Muesquita et al. 2003). Indeed, empirically democracies tend to provide public goods at higher levels than more autocratic systems (Sokoloff and Engerman 2000; Lake and Baum 2006). Under this accountability story, politicians fear that concentrating on particularistic benefits could jeopardize relations with voters and endanger their reelection bids. Consequently, they will be less receptive to particularistic appeals by firms. Faced with decreased probability in the success of lobbying for particularistic strategies, but no such decrease in the costs of making such appeals alone, firms are more likely to embrace business associations. This is because the tendency of business associations to push for encompassing benefits is much less of a problem where politicians are less receptive to the alternative, while the cost savings from using associations remains the same.

3. Lobbying Groups in Russia

[8] We recognize that this statement is conditional on the degree of discretion in the bureaucracy and its willingness to actually implement reforms and laws. While acknowledging this, we abstract away from the problem of state capacity in this paper, because it is an issue also common to many democracies. The need to lobby for implementation should be constant. In autocracies, whether due to weaker institutions or dominant parties, there are normally many fewer veto players than in democracies. We choose to focus on this aspect.

Before moving to our empirical analysis, it is important to make some brief notes about the context of Russian business associations and their relationship to Russian firms. Many of the first organized business lobbies in Russia grew up to advocate on behalf of small private initiatives that were permitted during the late Soviet period.[9] Others that date back to this era were organized by large state enterprises that shared an interest in preserving inter-firm ties and access to state subsidies as the mechanisms of centralized economic coordination evaporated. Some were first established from the top down by ministry officials as their own hedge against the uncertainty of the future (Lehmbruch, 1999). And still others probably served as fronts for corrupt or profit-motivated ventures. Generally speaking, these first associations were neither well organized nor transparent in purpose (Sulakshin and Romanikhin, 2003). Unlike in some continental European countries, business association membership in Russia has been voluntary.

The reforms of the 1990s gave rise to a wave of national-level, sector-specific organizations as well as a number of multi-sector and sector-specific organizations that operate at the regional and municipal levels. Although the lack of a comprehensive registry continues to render an accurate accounting of their numbers impossible, one recent estimate puts the numbers of business associations nationally at close to five thousand.[10] The population of business lobby groups has expanded to all corners of the Russian Federation largely through the voluntary cooperative efforts of local businesses, large and small. But it is also true, particularly during the Putin years, that centralized efforts to elevate some organizations over others as preferred channels for business-state communication have shaped the relative strength and influence of specific groups.

The Russian Union of Industrialists and Entrepreneurs (*RSPP*) and the Chambers of Commerce and Industry (*TPP*) are two multi-sector associations that are among the most developed

[9]This section draws closely on the narrative in Pyle and Solanko (forthcoming).
[10]Author interview in July 2005 in Moscow with the Director of the Department for Cooperation with Business Associations at the Chamber of Commerce of the Russian Federation.

and influential. *RSPP* first developed as an alliance of Soviet-era enterprise directors that in the initial stages of the reform era lobbied for the retention of many price controls, continued access to state subsidies and strict limits on foreign investment (McFaul, 1993; Hanson and Teague, 2005). By the mid- to late-1990s, it had begun to adopt a more liberal orientation and to help organize a network of independent affiliates about which little has been written. Like these *RSPP* affiliates, the Chambers of Commerce and Industry (*TPP*) draw their membership from many different sectors of the economy. Regulated through a special 1993 law guaranteeing their independence from state bodies, the *TPP* network traces its roots to a communist-era institution that promoted commercial ties with the non-communist bloc. As with the *RSPP*, relatively little has been written of its activities, particularly those of the 170-plus independent Chambers that operate at the regional and municipal levels.[11]

Like many of the organizations that populate civil society, the functions of business associations can be divided along two dimensions. First, they help develop and strengthen "horizontal" ties among non-state actors by facilitating inter-firm communication regarding, for instance, new technologies (Pyle, 2006) and the reliability of potential trade partners (Pyle, 2005). Second, they can be instrumental in the "vertical" relationship between the business community and state actors by aggregating, transmitting and advocating business interests to public officials. At the federal level, for instance, *RSPP* was widely recognized as being a powerful force behind some of the reform efforts pushed forward (not always successfully) in the early Putin years – *e.g.*, judicial and natural monopoly reform and the dismantling of regulatory barriers to small business development. Assessing the *RSPP*'s record from this time, one pair of experts concluded that "In

[11]For additional perspectives on both lobbying and business associations in Russia, see Frye (2002), Golikova (2009), and Zudin (2006)

many cases, the *RSPP* lobbying activities have been conducive to Russia's long-term economic prosperity" (Guriev and Rachinsky, 2005).

4. Data and Methodology

In order to test our theory, we make use of a survey of 1013 companies and a survey of 315 business associations conducted by the Higher School of Economics in late 2010. One of the major advantages of these surveys is that they cover a substantial number of regions, 61 out of the 83 Russian regions, making it ideal for testing hypotheses based on regional variation. The sample is more or less uniformly distributed across regions, although a special quota was assigned for firms located in Moscow and St. Petersburg[13] (there are about 9% of firms in the sample from each of these cities). More than half of surveyed firms are located (53%) in other regional capitals, with the remainder being companies from the peripheral cities, small towns, and villages. The firm survey covers ten major sectors, roughly half of which are industrial and half of which are non-industrial.[14] Finally, the average firm size for the sample is slightly larger than the national average and the survey excluded so-called micro-firms (with less than 15 employees) and the largest employers.

In order to test our theory, we estimate a set of multi-level logistical models of the form:

$$Y_i = \beta\, X_i + \rho Z_j + \gamma Dem_j + \eta_j + \epsilon_i$$

Where Y is the dependent variable of interest, Dem_j is our relevant measure of political institutions, X_i is a matrix of firm level controls, Z_i is a vector of regional level control variables, and η_j are region specific random intercepts. Multi-level models are superior to rival estimation techniques for nested data, such as ours, for three reasons. First, it allows us to estimate the direct effect of variables of interest and controls at a higher levels of aggregation (here regions), while at the same

[13]Moscow and St. Petersburg have special status, being constitutionally designated as "cities of federal importance."

[14] Sectors include mechanical engineering, metallurgy, chemical, woodworking, light industry, food industry, information technology, trucking, retail, and travel services.

time providing some defense against omitted variable bias in the form of fixed or random effects. Secondly, such specifications use information both within and between units to derive more efficient estimates of variables of interest. Finally, multi-level models require fewer distributional assumptions about the correlation of error terms across higher level units, as well as about variation about the effects of variables between units (Gelman and Hill 2007).

Our primary dependent variable of interest comes from a question that asks respondents to list the channels that they use to lobby for changes in regional policy. Respondents had the following options: "personal contacts with representatives from the regional duma, the governor and/or members of the regional administration,"[17] "business associations", "media" and "personal contacts with influential individuals outside of government (e.g., other entrepreneurs or public figures)." Because our main interest lies in whether or not firms use business associations as a means of indirect lobbying, we create a dummy variable for our primary test, which is coded 1 if firms report having used business associations as part of their lobbying strategies.[18]

In order to test our theory about the quality of political institutions and concentration we use a variety of measures. Our primary measure of political institutional quality is the Carnegie Democracy Index produced as part of the Moscow Carnegie Center's Regional Monitoring Project and updated for the period from 2005 to 2009. The original measure captures expert assessments of Russia's regions along ten different measures of democracy, which additively produce an index ranging from 5 to 50, with higher scores indicative of more democratic regions (McMann and

[17]Respondents were actually asked separately about lobbying the regional governor and representatives in regional legislatures. For our purposes here, we merge these two responses into one category.

[18]We choose to focus primarily on lobbying through business associations, because this has the clearest connections with our framework of direct and indirect lobbying. In previous versions of the paper, we also looked at lobbying through regional legislatures or executive branch officials, but felt that this excluded other officials firms might lobby directly (regulatory officials), did not properly exclude the role of professional lobbyists (who constitute indirect lobbying channels in our framework), and complicated presentation. The results of this analysis largely comport with our findings about lobbying through business associations, however, and are available upon request.

Petrov, 2000).[20] Because this measure includes a number of elements extraneous to our focus, such as economic reform, we supplement it with additional indicators of regional competitiveness and concentration. First, we introduce a measure for the effective number of parties in the most recent regional elections to 2010, using the Laakso and Taagepera (1979) methodology. Again a higher score indicates more democratic regions. Second, we also introduce the margin of victory for United Russia in the most recent Duma election (2007) and in the most recent regional elections, which are intended to capture the extent to which United Russia dominates regional politics. For these variables lower scores indicate less political concentration.

In our main specifications, we choose to present relatively minimalist models. Our firm level control variables include firm size, a vector of sector dummy variables, controls for the type of locality the firm is located in (e.g. regional capitals, where firms have more access), and a dummy variable equal to 1 if the firm lobbied government officials (executive or legislative branch officials) directly. At the regional level, we include additional controls for regional GRP per capita in 2009 and the log of the regions' population in January of 2009.

5. Results

Table 2 presents the results of our main specification. At the individual level, larger firms were more likely to lobby using business associations, as were firms located in regional centers. In addition, firms appear to regularly engage in lobbying through multiple channels simultaneously, with firms who reported having lobbied government officials directly also being more likely to make use of business associations to lobby at conventionally significant levels.

[20] The ten elements include representativeness of elections (free and fair with few limitations on political rights), openness of political life (extent of transparency and public involvement in the political sphere), pluralism (participation of stable parties), economic liberalization, municipal governance, media freedom, elite recruitment and coordination, and "regional political structure". Unfortunately, disaggregated scores are not available for updated data as of this draft. Future drafts will focus more narrowly on indicators of competitiveness.

Turning to the institutional variables of interest, there is some evidence that institutional context influences the lobbying strategy of firms. As expected, both effective number of parties and regional press freedom are positive significant predictors of the use of business associations as a lobbying strategy at the 90% confidence level. This roughly comports with our expectation that political competition will be positively, and political concentration negatively, correlated with the use of business associations as a lobbying strategy. Similarly, United Russia's margin of victory in the national duma elections, which indicates more political concentration and less competition at higher values, is a negative predictor and is significant at conventional levels. Finally, although not significant at conventional levels, the signs for our alternative measures, the Petrov democracy index and United Russia's margin of victory in regional elections, were also in the expected directions.

While the full sample results are illustrative, we worry that much of the effect of interest is being drowned out by the large number of firms that do not lobby at all. In order to check this, we limit our samples to only those firms who lobby in Table 3. Using a restricted sample strengthens our results somewhat. The Petrov index is now a positive, significant predictor of the use of business associations for lobbying at the 95% confidence level. Our measure of Effective Number of Parties is also a positive significant predictor, although at the same 90% confidence level as we observed in Table 2. Finally, United Russia's margin of victory in both duma and regional elections are negative and significant predictors, as expected. Again, results largely conform with our theory that political competition should be positively, and political concentration negatively, correlated with the use of business associations as lobbying mechanisms.

Taken together, these tests provide some evidence for our simple theory of the relationship between institutions and lobbying strategy – the better the institutions the more attractive indirect lobbying becomes vis-à-vis direct lobbying. Unfortunately, these tests tell us relatively little about whether firms make these decisions based on a pure cost-benefit consideration or are induced to do so due to the incentives of politicians under higher degrees of political accountability. Effective number of parties and the two margin of victory variables, our clearest measures of political concentration, are also likely highly correlated with political competition. Our cleanest measures of accountability, the Carnegie index and Press Freedom, were significant in one specification a piece, indicating that accountability cannot be completely dismissed.

Accountability versus Cost-Benefit

Unfortunately, our main regression results tell us little about the mechanism behind the correlation between firm lobbying strategy and political institutions. We see two explanations for why firms in more politically competitive settings have a stronger preference for lobbying officials through intermediaries. One calls attention to firms who weigh the costs of sacrificing autonomy against the benefits of conserving on lobbying costs. With the greater dispersion of power that characterizes more politically competitive environments, these costs rise and with them the attractiveness to firms of farming out lobbying activities to business associations. The second explanation focuses on the incentives of officials whose receptiveness to the appeals of intermediating organizations relative to those of single firms is a function of the political environment. Political competition, that is, increases officials' sensitivity to the more encompassing interests of associations, thus incentivizing firms to call on their services with greater frequency.

Either or both of these explanations could shed light on the patterns we observe from the firm-level data. How might we distinguish between the two? We exploit a natural difference in associational types that should influence behavior if one of the explanation holds but not the other. As has been noted by Olson (1982) and others, collective actors vary with respect to their degree of "encompassingness." Those whose members are more heterogeneous, more diverse in orientation, are more apt to promote ends that align well with popular welfare. Just as the interests of firms are more apt to be more narrow and particularistic than those of a business association, those of sector-specific associations are more likely to be more narrow and particularistic than those of associations representing a multiplicity of sectors. Public officials in more politically competitive settings, we might expect, would be more responsive to the more encompassing voices of multi-sector organizations. By highlighting officials' incentives as opposed to firms' lobbying costs, this hypothesis relates to behavior under our second explanation above but not the first.

We test the hypothesis that officials should be more (less) sensitive to the interests of multi- (single-) sector associations in more politically competitive environments by using a survey of 315 Russian business associations across 61 regions,[23] which asked respondents, "Do you agree that state officials at the regional level are interested in associations' participation in discussion and development of laws and regulations?" and allowed them to answer yes or no. This question is perfect for testing the accountability story, because it addresses the incentives of officials to listen to business associations, and therefore those associations' effectiveness, during the lobbying process. According to the accountability story, associations that represent more encompassing interests, that is associations with members in a wide variety of economic sectors, are more likely to be sought out by officials in regions with more political competition.

In order to estimate the relationship between political institutions, business association type, and the willingness of officials to consult institutions, we again make use of multi-level logit models. In addition to the rationale given in section 4, the technique is particularly well suited to this application, as, in comparison to alternatives, it provides good, efficient estimates of regional

[23] Unfortunately, it is difficult to make conclusions about the degree to which the sample is representative, because little data exists about the population of Russian business associations. About 45% of our sample consisted of associations that are regional branches of national level organizations, 29% that are region-specific associations with no connections to national level associations, and 26% that are national associations with membership in multiple regions. Because our concern is regional level lobbying, we omit the latter from subsequent analysis. Finally, although we do not have many associations in each region (3 to 5 in most cases), the regional distribution is quite uniform.

level parameters even in cases where there are few individuals nested in each region (see fn. 23), as we have here (Gelman and Hill 2007). Our equation takes the form:

$$Y_i = \beta\, X_i + \rho Z_j + \gamma Dem_j + \partial Dem_j * Sector\_BA_i + \epsilon_i$$

Here Y_i is the indicatior of officials interest in cooperation with associations, based on the question mentioned above. Dem_j is one of our indices of political environment, X_i is a vector of association specific control variables, Z_j is a vector of regional control variables, and $\partial Dem_j * Sector\_BA_i$ is the interaction term between political environment variable and a dummy variable indicating an association is sector-specific. Our measures of Dem_j and the components of Z_j are similar to those used in firm survey study. As association-level control variables we include an associations estimate of how much its members contribute to regional GRP and the percentage share of the associations' budget funded by donations from its members.

The results of estimation are presented in Table 6, which provides some support for the proposition that the authorities in more democratic regions are more likely to solicit the opinions of more encompassing business associations. Models 1 and 3 indicate negative relationships between the interaction of their measure of political institutions (Petrov Democracy Index and Press Freedom, respectively) that are statistically significant at conventional levels. As predicted byour accountability story, single sector associations are less likely than multi-sector associations to be consulted in more politically competitive regions. Interestingly, however, models 2, 4, and 5 indicate that there is a direct relationship between our measures of institutions and the willingness of authorities to consult business associations that is statistically significant at conventional levels. Curiously, in all cases, the direct relationship appears to be a negative one, in which more politically competitive regions tend to consult business associations less. We believe that this is likely because associations are less likely to require invitations to participate in the political process (implicitly what this question is asking about) when it is already more open. This is an interesting area for future investigation, however.

Robustness Checks

In order to verify the robustness of our results, we run a number of additional tests. First, in order to control for possible selection bias in which firms lobby due to unobserved variables correlated with the quality of political institutions, we check whether lobbying behavior is correlated with regime type. Tables 4 presents the results of this robustness check in specifications using the same control variables as those from our main tests and which uses a dummy variable equal to 1 if the firm reports lobbying at the regional level through any method. Signs are mixed in Table 4 and none of the variables achieve statistical significance at conventional levels. Firms lobby regardless of the nature of political institutions.

Table 5 checks whether the results observed in the main tests are due to variation in business association membership due to political institutions. Although all signs are positive, implying that firm membership in business associations and good political institutions go hand in hand, most institutional variables fail to reach conventional levels of significance. The one exception is our measure of the Petrov index, which is a positive significant predictor of membership in business associations at the 90% level. Although this indicates that there may be some correlation between political institutions and regime type, we should be cautious about embracing these results. One of the sub-components of the Petrov index includes a measure of civil society, which takes into account the number of civil society organizations, like business associations. As this is part of the construction of the variable, the correlation between the Petrov index and association membership in our sample is not surprising. To the extent that other measures of political concentration and competition fail to reach significance at conventional levels, it is unclear if we can take this as evidence of a selection effect.

Finally, in order to reassure ourselves as to the validity of our main results, we ran additional sets of unreported regressions using additional individual and regional level variables. We tried specifications that included controls for the characteristics of managers (age and education), whether firms are oriented towards the regional or federal markets, self-reported productivity, ownership structure, holding company status, foreign ownership, whether the firm is managed by its owner, and whether firm owners know regional officials. At the regional level, we also included additional controls for share of profit tax in total revenue (as a measure of market development) and the number of bureaucrats (healthcare workers and education workers) in the region. Results remained roughly the same in all of these various permuations and actually become more robust, statistically, as we include more individual level control variables.[24]

6. Conclusion

At this early stage in our investigation of direct and indirect lobbying strategies in hybrid regimes, we have abstracted away from some potentially important issues that might, indeed, be germane to the relationship between political institutions and the choice of lobbying channels. We have presented a simple theory, stripped of references to non-trivial matters like state capacity and corruption, connecting the choice of lobbying channels to political institutions on the regional stage. We present evidence that firms in environments with better institutions and less concentration are more likely to make their appeals to influence regional policy indirectly through business associations acting as intermediaries. While we are unable to definitively say whether this is due to the incentives that increased accountability in these settings bring to politicians or to the extra costs

[24] Results of all of these specifications are available upon request.

to firms of establishing connections with a critical mass of politicians, we do provide some evidence for the former view. It appears that business associations tend to be consulted more often by authorities in regions with good political institutions if they represent multiple sectors, thus making it easier for officials to claim to be looking to the public good in the face of heightened accountability to the public.

Our work has several implications. First, it provides further evidence of the tight link between different institutional types and the probability of state or business capture. To the extent that environments with weaker political institutions incentivize actors to lobby through direct channels, they are also more likely to incentivize actors (whether politicians or firms themselves) to engage in exchange relationships. These opaque exchange relationships may, in turn reinforce the conditions incentivizing such relationships in the first place. Second, if business associations do indeed represent encompassing interests almost exclusively, then our research should reinforce the notion that encompassing interests are more likely to become policy where political institutions are good. While in this version of our paper we cannot distinguish whether firm cost calculations based on political concentration or the affects that politicians' incentives in high accountability settings, our findings suggest that this result has much to do with the choice of firms over potential lobbying strategies.

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Table1: Channels used to Lobby for Changes in Regional Policies and Business Association Membership

Channels	Members of regional BAs		Not members of regional Bas		Total	
	Number of firms	Share	Number of firms	Share	Number of firms	Share
Business associations	67	33%	67	8%	134	13%
Personal contact with regional officials	51	25%	59	8%	110	11%
Media	25	12%	33	4%	58	6%
Influential individuals (not in regional government)	21	10%	24	4%	45	4%
Total (in sample)	206	100%	792	100%	991	100%

	Model 1	Model 2	Model 3	Model 4	Model 5
(Intercept)	-3.93	-6.55	-3.60	-7.67	-5.27
	(3.67)	(3.72)	(3.72)	(3.95)	(3.77)
ln(employees)	$0.24**$	$0.24**$	$0.25**$	$0.24**$	$0.24**$
	(0.11)	(0.11)	(0.11)	(0.11)	(0.11)
city regcenter	$0.58**$	$0.58**$	$0.58**$	$0.60**$	$0.57**$
	(0.29)	(0.29)	(0.29)	(0.29)	(0.29)
lobby officials	$1.75***$	$1.75***$	$1.73***$	$1.76***$	$1.73***$
	(0.27)	(0.27)	(0.26)	(0.27)	(0.26)
GRP per Capita	0.01	0.01	0.01	0.00	0.00
	(0.01)	(0.00)	(0.01)	(0.01)	(0.01)
ln(Population)	-0.05	0.13	-0.08	0.07	0.05
	(0.26)	(0.26)	(0.27)	(0.26)	(0.27)
Petrov Democracy (Higher is Better)	0.04				
	(0.03)				
Effective Number of Parties (Higher is Better)		$0.17*$			
		(0.09)			
Press Freedom (Higher is Better)			$0.44*$		
			(0.26)		
UR Margin - Duma (Lower is Better)				$-3.34*$	
				(1.85)	
UR Margin - Regional (Lower is Better)					-0.01
					(0.02)
AIC	712.64	711.45	711.81	711.22	714.51
BIC	796.04	794.85	795.21	794.62	797.91
Log Likelihood	-339.32	-338.73	-338.91	-338.61	-340.26
Deviance	678.64	677.45	677.81	677.22	680.51
Num. obs.	998	998	998	998	998
Num. groups: reg id ch	60	60	60	60	60
Variance: reg id ch.(Intercept)	0.59	0.54	0.59	0.56	0.61
Variance: Residual					

$^{***}p < 0.001$, $^{***}p < 0.01$, $^{**}p < 0.05$, $^{*}p < 0.1$

Table 2: Use of Business Associations for Lobbying and Institutional Context

	Model 1	Model 2	Model 3	Model 4	Model 5
(Intercept)	1.86	−0.54	1.67	−1.76	−1.77
	(4.17)	(4.20)	(4.09)	(4.32)	(4.42)
ln(employees)	0.20	0.19	0.22	0.18	0.18
	(0.19)	(0.19)	(0.19)	(0.19)	(0.19)
city regcenter	0.44	0.33	0.23	0.39	0.35
	(0.45)	(0.44)	(0.43)	(0.44)	(0.44)
lobby officials	−0.55	−0.54	−0.59	−0.53	−0.62∗
	(0.37)	(0.37)	(0.37)	(0.37)	(0.37)
GRP per Capita	0.01	0.01	0.01	0.00	0.00
	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)
ln(Population)	−0.21	−0.03	−0.19	−0.13	0.08
	(0.30)	(0.29)	(0.29)	(0.29)	(0.31)
Petrov Democracy (Higher is Better)	0.08 ∗ ∗				
	(0.03)				
Effective Number of Parties (Higher is Better)		0.18∗			
		(0.10)			
Press Freedom (Higher is Better)			0.36		
			(0.29)		
UR Margin - Duma (Lower is Better)				−4.38 ∗ ∗	
				(2.03)	
UR Margin - Regional (Lower is Better)					−0.04∗
					(0.02)
AIC	238.048	239.82	241.46	237.79	239.94
BIC	290.53	292.30	293.95	290.28	292.43
Log Likelihood	−102.02	−102.91	−103.73	−101.90	−102.97
Deviance	204.04	205.82	207.46	203.79	205.94
Num. obs.	162	162	162	162	162
Num. groups: reg id ch	50	50	50	50	50
Variance: reg id ch.(Intercept)	0.000	0.00	0.00	0.00	0.00
Variance: Residual					

$^{***}p < 0.001$, $^{**}p < 0.01$, $^{*}p < 0.05$, $^{*}p < 0.1$

Table 3: Use of Business Associations for Lobbying and Institutional Context - Lobbiers only

	Model 1	Model 2	Model 3	Model 4	Model 5
(Intercept)	3.00	2.81	3.94	3.57	3.96
	(3.08)	(3.12)	(3.09)	(3.27)	(3.10)
ln(employees)	0.44***	0.44***	0.44***	0.44***	0.44***
	(0.10)	(0.10)	(0.10)	(0.10)	(0.10)
city regcenter	0.25	0.26	0.26	0.25	0.24
	(0.24)	(0.24)	(0.24)	(0.24)	(0.24)
GRP per Capita	0.00	0.00	0.00	0.00	0.00
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
ln(Population)	−0.55 **	−0.54 **	−0.62***	−0.57***	−0.62***
	(0.22)	(0.22)	(0.22)	(0.22)	(0.22)
Petrov Democracy (Higher is Better)	0.00				
	(0.02)				
Effective Number of Parties (Higher is Better)		0.03			
		(0.08)			
Press Freedom (Higher is Better)			0.26		
			(0.22)		
UR Margin - Duma (Lower is Better)				0.56	
				(1.48)	
UR Margin - Regional (Lower is Better)					0.02
					(0.02)
AIC	826.84	826.74	825.58	826.74	825.86
BIC	904.98	904.88	903.71	904.87	904.00
Log Likelihood	−397.42	−397.37	−396.79	−397.37	−396.93
Deviance	794.84	794.74	793.58	794.74	793.86
Num. obs.	976	976	976	976	976
Num. groups: reg id ch	60	60	60	60	60
Variance: reg id ch.(Intercept)	0.51	0.51	0.48	0.52	0.49
Variance: Residual					

$^{***}p < 0.01$, $^{**}p < 0.05$, $^{*}p < 0.1$

Table 4: Regional Lobbying and Institutionsal Context

	Model 1	Model 2	Model 3	Model 4	Model 5
(Intercept)	-0.30	-1.68	-1.15	-1.94	-0.63
	(2.35	(2.50)	(2.45)	(2.59)	(2.45)
ln(employees)	0.27^{***}	0.27^{***}	0.27^{***}	0.27^{***}	0.27^{***}
	(0.09)	(0.09)	(0.09)	(0.09)	(0.09)
city regcenter	0.04	0.03	0.03	0.03	0.01
	(0.20))	(0.21)	(0.21)	(0.21)	(0.21)
GRP per Capita	0.00	0.00	0.00	0.00	0.00
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
ln(Population)	-0.20	-0.10	-0.14	-0.12	-0.18
	(0.17)	(0.18)	(0.17)	(0.17)	(0.17)
Petrov Democracy (Higher is Better)	0.03^{*}				
	(0.02)				
Effective Number of Parties (Higher is Better)		0.04			
		(0.06)			
Press Freedom (Higher is Better)			0.02		
			(0.16)		
UR Margin - Duma (Lower is Better)R				-0.82	
				(1.11)	
UR Margin - Regional (Lower is Better)					0.01
					(0.01)
AIC	945.9	948.77	949.18	948.66	948.44
BIC	1024.42	1027.26	1027.67	1027.15	1026.93
Log Likelihood	-456.97	-458.39	-458.59	-458.33	-458.22
Deviance	913.93	916.77	917.18	916.66	916.44
Num. obs.	998	998	998	998	998
Num. groups: reg id ch	60	60	60	60	60
Variance: reg id ch.(Intercept)	0.08	0.12	0.13	0.11	0.12
Variance: Residual					

$^{***}p < 0.01$, $^{**}p < 0.05$, $^{*}p < 0.1$

Table 5: Business Association Memership and Institutional Context

	Model 1	Model 2	Model 3	Model 4	Model 5
(Intercept)	-7.62	-4.06	-7.07	-7.96	-4.00
	(3.92)	(4.22)	(4.15)	(3.99)	(3.84)
Regional GRP	0.00	0.00	0.00	0.00	0.00
	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)
ln(Population)	$0.58**$	0.36	$0.51*$	0.45	0.23
	(0.28)	(0.29)	(0.30)	(0.28)	(0.28)
Member share of Regional GRP	$0.21*$	$0.25**$	$0.22**$	$0.24**$	$0.26*$
	(0.11)	(0.11)	(0.11)	(0.11)	(0.11)
member funded	$-0.01*$	$-0.01*$	$-0.01*$	$-0.01*$	-0.01
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
member funded - missing	$-0.96*$	$-0.95*$	$-0.96*$	-0.92	-0.86
	(0.57)	(0.57)	(0.57)	(0.57)	(0.57)
Single Sector BA	$3.39*$	-0.41	1.71	-0.27	0.11
	(1.76)	(0.72)	(1.06)	(1.52)	(0.64)
Petrov Democracy (Higher is Better)	-0.01				
	(0.04)				
Petrov*Single Sector BA	$-0.11**$				
	(0.05)				
Effective Number of Parties ((Higher is Better))		$-0.21*$			
		(0.12)			
ENP*Single Sector		0.02			
		(0.18)			
Press Freedom - somewhat not free			0.09		
			(0.49)		
Press Freedom2009 - somewhat free			0.52		
			(0.66)		
Press Freedom2009sect			$-0.98**$		
			(0.48)		
UR Margin - Duma (Lower is Better)				$3.44*$	
				(2.04)	
UR Margin Duma*Single Sector				-0.11	
				(3.01)	
UR Margin - Regional (Lower is Better)					$3.23***$
					(1.18)
UR Margin Regional*Single Sector					-1.44
					(1.67)
AIC	302.37	306.45	308.12	306.15	294.19
BIC	336.39	340.48	345.55	340.18	328.22
Log Likelihood	-141.18	-143.23	-143.06	-143.08	-137.10
Deviance	282.37	286.45	286.12	286.15	274.19
Num. obs.	222	222	222	222	222
Num. groups: regidch	58	58	58	58	58
Variance: regidch.(Intercept)	0.26	0.35	0.40	0.27	0.13
Variance: Residual					

$^{***}p < 0.001$, $^{***}p < 0.01$, $^{**}p < 0.05$, $^{*}p < 0.1$

Table 6: Business Association Type and Being Asked to Conribute to Policy

Figure 1: Sample Characteristics

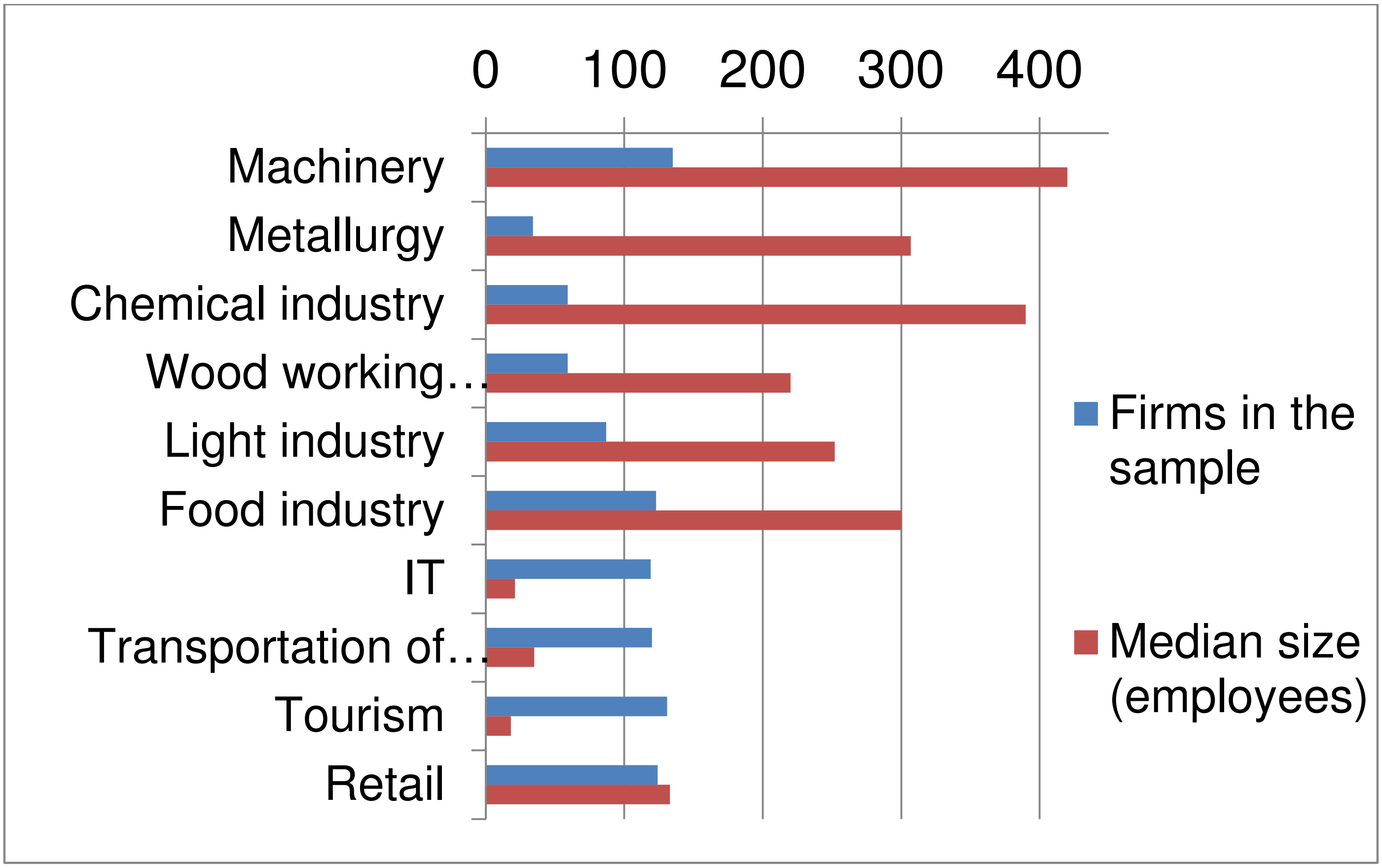

Figure 2: Firm Use of Lobbying Channels