

## **Lobbying or Information Provision: Which Functions of Associations Matter Most for Member Performance?**

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### **Abstract**

In recent years, virtually all transition economies have witnessed some degree of recovery from the devastation of their economies that took place in the early to mid 1990s. They have also witnessed the increasing importance of private sector activities. But the conditions within which firms, and especially private firms, operate are still far from those of transparent rules and institutions and competitive markets. Indeed, the problems that firms report to be their most important ones and other institutional and other characteristics vary considerably both between and within the various transition economies. Quite naturally, firms have at their disposal various alternative strategies for dealing with their problems. The purposes of this paper are two-fold: 1) to compare the effects of unofficial payments and association memberships on various alternative measures of firm performance, and (2) in the case of associations to determine which particular functions – lobbying, information or other – have the greatest effects on firm performance. The alternative performance measures include the growth of sales, of exports and of assets, the relative importance of expenditures on new equipment and on R&D in total sales. To accomplish these objectives the study makes use of the 2002 and 2005 of the Business Environment and Enterprise Performance Surveys undertaken by the European Bank for Reconstruction and Development and the World Bank in 28 different transition economies. Estimates are obtained for each stage of the analysis from both the separate cross-sections for 2002 and 2005 and for a smaller panel of firms for which the information is available for both years. The results are quite robust between data sets and estimation procedures and serve to demonstrate quite clearly the effects of firm and country characteristics on firm strategic choices and of the latter on the various indicators of firm performance.

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## ***I. Introduction***

In recent years, virtually all transition economies have witnessed some degree of recovery from the devastation of their economies that took place in the early to mid 1990s. The pace of such recovery and the extent of reforms, however, have varied considerably across countries. Another trend in the transition economies, though again varying from one country to another, has been the increasing importance of private sector activities. But, for most transition economies, the institutional and environmental conditions within which private firms operate are still far from clear and transparent and the markets also far from perfectly competitive. Given the many difficulties (among which are the high cost of complying with regulations, high tax rates, frequent changes in regulations, suboptimal trade and other policies, judicial inefficiency and the high costs of information) that the generally rather new private firms face in transition economies, it is common for such firms to use unofficial payments to officials as a means of solving these problems (Djankov et al, 2002). Yet, firms have also been making use of various business associations in dealing with their problems.

Yet, the usefulness of such associations for firm performance and for promoting economic efficiency is often seriously questioned. In particular, such associations are criticized for either one of the following reasons. On the one hand, they are criticized for being relics of the old regime wherein industry was dominated by state enterprises and the associations were top-down organizations putting forward the views of the state and large public or possibly privatized firms. On the other hand, they are criticized for being mere lobbying organizations that serve as vehicles for rent-seeking, e.g., to help favored firms obtain licenses and government favors of various sorts. In either case, these associations are often blamed for allowing the non-competitive and inefficient nature of these economies to continue.

But, Western NGOs and donor organizations and some scholars also see hope in associations, arguing that under certain conditions they may be able to help firms deal with the numerous and very genuine problems they face. For example, they may help firms solve commercial and other disputes with government, other firms or workers in the absence of well-functioning judicial institutions. They may also help firms and government get better information about each other, and firms to get better information about foreign standards and markets, as well as to serve as a forum for educating government entities about the obstacles that firms face, and seeking means of mitigating these obstacles for the benefit of firms in general. Not surprisingly,

the problems that firms report to be their most important ones and the most appropriate ways of resolving these problems may vary considerably both between and within the various transition economies.

There are two main objectives of this paper: (1) to compare the effects of unofficial payments and association memberships on various alternative measures of firm performance, and (2) in the case of associations to determine which particular functions – lobbying, information or other – have the greatest effects on firm performance. Since different firms may select different strategies in dealing with their problems, thereby creating a certain selection or endogeneity bias in analyzing the effects of these two alternative strategies, the paper also examines the determinants of the choice of strategies and the functions which are most used by firms.

These objectives are accomplished by taking advantage of cross section data for fairly substantial sample of randomly selected firms in each of 25 transition economies for the years 2002 and 2005<sup>2</sup> taken from the Business Environment and Enterprise Performance Surveys (BEEPS) undertaken by the European Bank for Reconstruction and Development and the World Bank.<sup>3</sup> The country samples for each year range from about 120 firms to over 800, amounting to 6667 for 2002 and 9655 for 2005. Since a substantial subset of the firms (about 1500 firms) is surveyed in both years, we also make use of panel data methods for estimating the relationships.

Since conditions were changing quite substantially between 2002 and 2005, the results reflect important differences over time. We also find some significant differences in the determinants and effects of association membership and unofficial payments across countries, even after controlling for a number of country and firm characteristics. In particular, we find that association members are more likely to be older, private, large, foreign or bank-owned, and facing problems of dispute resolution, anti-competitive behavior (on the part of other firms), and tighter government regulations but also operating in conditions in which property rights and anti-corruption policies are stronger than are other firms in other environments. Many of these same firm and country characteristics have opposite effects on the willingness of firms to make unofficial payments (as a percentage of total sales) to government officials.

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<sup>2</sup> The countries covered include Albania, Armenia, Azerbaijan, Belarus, Bulgaria, Croatia, Czech Republic, Estonia, Georgia, Hungary, Kazakhstan, Kyrgyz Republic, Latvia, Lithuania, Macedonia, Moldova, Poland, Romania, Russia, Serbia and Montenegro, Slovenia, Slovakia, Tajikistan, Ukraine, and Uzbekistan.

<sup>3</sup> Two other countries included in BEEPS for these years, Bosnia and Turkey, were excluded from our analysis. In the case of Bosnia this was because of a relatively small sample and missing macroeconomic data and in the case of Turkey because it is not considered to be a transition economy.

With respect to firm performance, five different measures are considered: expenditures on new equipment as a percentage of sales, expenditures on research as a percentage of sales and the growth rates of sales, exports and assets. Association membership is found to have positive and significant effects on most performance indicators, irrespective of the estimation procedure and the choice of control variables. Unofficial payments can also have positive effects on some performance indicators in some years but, for the most part at least, the effects of such payments on the various firm performance measures are either negative or insignificant and the results more sensitive to the sample, specification and estimation procedure. Finally, while all functions of associations are generally associated with better performance, the impacts vary somewhat from one function to another. In particular, regardless of the estimation procedure, with the possible exception of asset growth, the information provision functions of business associations have larger effects than the lobbying function. These results are robust to estimation procedure (OLS or Tobit, on the one hand and instrumental variable estimates on the other) as well as to specification, including the use of country fixed effects. Therefore, the results would seem to have important policy implications about the relative usefulness of the different services that business associations provide to firms in transition economies.

The paper is organized as follows. Section II, which follows, provides a brief survey of the literature on the role of associations in transition economies. Section III outlines the theoretical relationships that comprise our analysis and distinguish it from its predecessors. Section IV identifies the data and measures used in the analysis, presents descriptive statistics, and outlines the estimation methods. Section V presents our results, first OLS estimates of the effects of association membership and unofficial payments on the various performance indicators, then the instrumental variable estimates of the effects of association membership and unofficial payments on performance with instrumental variables. Estimates of are also provided on the comparative effectiveness on firm performance of the reported usefulness of each of six different services. In each stage of the analysis, separate results are presented for the 2002 and 2005 cross-sections and for the 2002-2005 panel. Section VI concludes and contains implications for both policy and further research.

## ***II. Business Associations in Transition Economies***

As noted above until very recently assessments of business associations in helping firms in transition economies to deal with their problems and promote economic efficiency and growth were at best quite primitive and mixed. For many analysts existing business associations in such countries have been seen as suffering from either one or the other of two evils (1) domination by large firms including state firms who can afford the time to spend on association activities or can contribute more financially to their sustenance or (2) manipulation by governments who may support such associations for political purposes and thus have the effect of diverting their activities to the benefit of government officials. Since in the past at least many associations served one or the other of these purposes, it has given all business associations including newer ones a bad reputation.

At the other extreme, there are studies by western NGOs and donors which suggest that business associations can play a very important role in dealing with important social issues as well as in propelling transition economies to rapid growth and development. Examples of such organizations include the Center for International Private Enterprise (an affiliate of the US Chamber of Commerce), USAID, the World Bank, the European Union, the International Institute for Labor Studies of the ILO, and numerous economic reform institutes located in the region with external support.<sup>4</sup> From their perspective, among the benefits that business associations can provide are (1) serving as an efficient means of communicating with public sector organizations, (2) helping to settle disputes with customers, suppliers and government agencies, (3) providing information concerning technological, health and environmental standards and/or domestic as well as foreign market opportunities, (4) providing technological assistance and training of various sorts, (5) enforcing contracts through various collective punishment methods such as boycotting or blacklisting defaulters by association members as a whole, (6) lobbying government officials to consider policy changes that would improve business conditions for most firms and mitigate the anti-competitive practices of other firms (usually very large and entrenched ones). Since large firms may be able to internalize the benefits of many of these activities (which are subject to scale economies) and thus undertake these activities by themselves, many believe that associations should usually be seen as being potentially at least of special use to small firms. Working cooperatively with other firms inside

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<sup>4</sup> For instance, the Institute for Market Economics in Bulgaria.

associations is often seen as an attractive alternative to the use of illicit payments to government officials by individual firms, and thus may make it easier to reduce corruption.

Objective and valid evaluations of the effects of business associations are relatively rare. When done by the associations themselves, there may be an incentive for the evaluators to come up with positive evaluations. On the other hand, evaluations of independent-type associations by government organizations may be biased against the associations. Even perfectly objective evaluators face a whole host of difficulties in arriving at sound evaluations because members self-select into such associations instead of being assigned randomly, thereby complicating the measurement of benefits. As a result, the relatively few objective and scholarly studies of associations and their effectiveness have had to settle for something far short of a full evaluation, often limited to simple firm or consultant surveys identifying the services provided by firms and a subjective score of the usefulness of each such service to the firm or comparisons in average firm performance between association members and non-members.

Such evaluations are complicated also by the fact that business associations differ in many respects, some of which may be very relevant to the usefulness of the services they provide. For example, the European Bank for Reconstruction and Development (EBRD) (1999: 156) points out that business associations for which membership is mandatory are much more likely than voluntary associations to be of the old style inherited from the Central Planning era, offering rather perfunctory services of interest almost exclusively to large firms. When membership is voluntary, associations have the incentive to attract firms to take out memberships by supplying services that firms demand, especially by the relatively more numerous small and medium enterprises (SMEs). Some business associations are very large and umbrella-like, with different branches serving different sectors and/or regions whereas others are specialized, e.g., dealing with a single sector, city or type of firm (e.g., exporters). They also vary in the extent to which they contract out the services provided to private firms, and the way they charge for the services offered (Hailberg 1999). Kim and Nugent (1999), though only for Korea, demonstrate the importance of the governance structure (e.g., the degree to which SMEs are represented on the Board of Directors) of the associations and other suppliers of services to businesses for the quality and appropriateness of the services they supply. Several analysts (e.g., McMenemy, 2002 and Sullivan, Bettcher and Shkolnikov, 2006) have distinguished between associations that are primarily redistributive in nature (of the type predicted to be successful in collective action

by Olson, 1965) and those which try to facilitate firms in market participation (which are believed to be complementary to market development). Most of these analysts find both types of associations in transition economies, but in many cases with the former outnumbering the latter and being larger in size. Much of the work of NGOs and foreign donors are directed at strengthening the capabilities of associations of the market facilitating type. But, Sullivan, Bettcher and Shkolnikov point out that distinguishing between these two (or more) types of associations may be no easy task. Indeed, they suggest that it cannot be done by simply investigating the by-laws of the different associations and that, in view of the fact that many associations change rapidly over time, to do so may require rather comprehensive and repeated studies of each association.

Doner and Schneider (2000), to their credit, attempt something more manageable, though unfortunately largely anecdotal. They recognize that while every association may be somewhat redistributive, some are much more market-supporting markets or market-complementing than others. Six different functions that associations can perform are identified, some serving the market-supporting benefits and others the market complementing ones. They then go on to identify associations from around the world that seem to have been successful in fulfilling one or more of each of these functions. Since these successful associations are well known, they draw on existing literature on them to identify factors both internal and external to them that make them successful. Among the internal ones are firm or industry characteristics deemed favorable to collective action by Olson (1965). Among the external factors are country characteristics such as market competitiveness, state capacity to exercise discipline over markets and the extent of competition among associations. While some of the relevant external characteristics may be relatively easy to identify at the country level, at the industry level and firm levels collective action principles are likely to be difficult to operationalize.

In a series of papers mostly on Russia alone (Pyle 2006, 2007), but in some cases also comparative across several transition countries (Pyle 2003; ) William Pyle has ventured more seriously into evidence from member firms about both the nature and quality of the services provided by associations. Pyle (2003) for example shows that trade associations with information services make it more likely that a firm would learn about a dispute that one of its customers might have with another firm or about a customer located far from the firm from a business association. In Pyle (2006), moreover, he has extended the analysis to performance by showing

that in Russia firms which are association members provide more training of personnel, invest more in plant and equipment, introduce new technologies or modes of production and either import or export more than non-member firms. But at the same time, he shows (1) that even when an association offers services very few firms actually use the services, and (2) that membership is selective in that large firms are much more likely to undertake membership in associations than small firms, implying that membership is by no means a random or exogenous to performance and the use of services. As a result, Pyle is very conscious of the danger of interpreting these results as implying that business association membership causes improved firm performance. While still not dealing with the endogeneity issue, Pyle (2007) again investigates the effects of association membership on Russian firm performance (in this case measured by a dummy variable for having invested in capital equipment during the last three years). His results show that both democratic conditions and association membership raise the probability of such investment significantly, but the effect of association being stronger in less democratic areas. Along with Doner and Schneider (2000), Pyle is among the relatively few authors to pay any attention at all to the information provision and dispute resolution services of business associations.

The study of greatest relevance to the present one is that by Campos and Giovannoni (2007). Like us, these authors examine the determinants and effects of two different strategies of firms in transition economies to obtain favor for their businesses with the authorities, namely, business association memberships and the services that they offer and corruption payments. By combining determinants with effects, in principle, they are able to deal with the aforementioned problem of endogeneity of association membership and service use and corruption payments in the analysis of their effects. However, as in much of the literature on business associations in transition countries all functions of such associations other than lobbying, e.g., in settling disputes, in obtaining information about customers, suppliers, technical standards or government policies, are ignored. Empirically, they examine these effects with an earlier round (1999) of the same survey that we use in this paper (the aforementioned BEEPS). Since the 2002 and 2005 rounds of the survey are larger and more detailed than that for 1999, and since a subset of the firms in these two rounds form a panel, our attention is focused on the 2002 and 2005 rounds of BEEPS. Not surprisingly, the authors find that the lobbying and corruption payment strategies of firms are substitutes for one another, rather than complements. From the subjective evaluations by firms of

the influence exerted by lobbying they find the effects of lobbying to exceed those of corruption payments. They made no attempt, however, to examine the effects on firm performance, which is our primary objective.

Aside from these studies, however, as noted by Pyle (2007), most studies disregard the role of business organizations in the interface between individual firms and government agencies. Some argue that by their own personal interactions, firms can capture government officials or vice versa, making business associations redundant (EBRD, 1999; Hellman et al 2003). In their powerful critique of the rapid decentralization and the removal of subsidies of state enterprises of the transition economies of Central and Eastern Europe (but not China), Blanchard and Kremer (1997) decry the void that has been left between the proliferating privatized and new private firms on the one hand and the state without central planning on the other. They attribute the sharp economic declines that transition economies experienced in the early and mid-1990s to the failure to fill this void. Despite the generally large numbers of such associations, it didn't even occur to these authors that business associations could well have the potential to fill that void, a point noted by Recanatini and Ryterman (2002).

### ***III. Outline of the Theoretical Relationships***

As noted above, the primary objective of this study is to investigate the relative importance and magnitudes of the effects on firm performance of the two alternative strategies that firms have to improve their situation and economic performance, namely by “unofficial” payments to government officials and by undertaking membership in one or more business associations. Instead of only a single measure of firm performance as in much of the earlier literature, we make use of five measures, and, instead of simply assuming exogeneity of association membership (or ignoring it), we make use of instrumental variables for both association membership and unofficial payments. We undertake the overidentification and other tests for determining the adequacy of the instruments used. Then, once the impacts of appropriately instrumented association membership on each of the five measures of economic performance are obtained, we attempt to distinguish between the effectiveness of each of six different functions that business associations perform on firm performance.

With respect to the comparative impact of unofficial payments and business association membership on performance indicators, as noted above analysts have differed in their expectations as well as their findings. It has been rather common to find that the relative sizes of the respective impacts may differ across different firm types and of course and across different countries or types of countries. By the same token, the choice between these alternative strategies that firms use in order to influence their performance may differ by country, industry and firm type. Often it is found that small firms are likely to rely more heavily on unofficial payments and large firms on business associations. As noted in some of the studies mentioned above, the relative importance of these different functions may vary over time and their effectiveness in affecting performance as well.

To be explicit, we make use of a two equation model. The first equation is one for the strategic or behavioral choice among whether or not to make unofficial payments (and if so how much) and whether or not to take out a membership in a business association. The second is one for firm performance.

$$S_{ijt} = \beta_1 X_{it} + \beta_2 Z_{jt} + \varepsilon_j + \varepsilon_{ijt} \quad (1)$$

Where  $S_{ijt}$  represents the set of strategic or behavioral decisions (unofficial payments or association membership) for firm  $i$  in country  $j$  at time  $t$ ,  $X_{it}$  is a vector of time-varying firm characteristics,  $Z_{jt}$  is a set of time varying country characteristics and the two error terms represent country fixed effects and random errors assumed to be

$$P_{ijk} = \gamma_1 S_{ijt} + \gamma_2 R_{it} + \delta_{jk} + \delta_{ijkt} \quad (2)$$

Where  $P_{ijk}$  represents performance indicator  $k$  for firm  $i$  in country  $j$  and time  $t$ , and  $R_{ijt}$  represent a vector of time varying firm or country characteristics and the error terms of similar type to those in equation (1).

In the case of firms that are members of association, they may make better use of some services provided by the associations than of others. Indeed, one can think of these specific services and how well they are evaluated as an important link to performance. As such, variants on equation (1) could also be used in estimating the relative usefulness of the specific services

provided by business association. In turn, the evaluations of these individual services would comprise the variable  $S$  the impact of which on firm performance is measured in equation (2).

Since it is firm performance that is the primary focus of the paper, emphasis will be on equation (2). The surveys allow us to make use of five different performance measures ( $k=1,2\dots5$ ). These are sales growth, export growth, asset growth, the share of spending on new equipment in total sales, and the share of expenditures on R&D in total sales. In each case, we make use of various measures of the strategic choices as well as a number of control variables.

#### ***IV. Data, Measures and Estimation***

Table 1 provides a list of the variables and descriptive statistics constituting elements of  $S$  and  $P$  vectors as well as a list of the other control variables included in  $X$ ,  $Z$ , and  $R$  used in the analysis. Measures of all variables are taken from the BEEPS Surveys<sup>5</sup> for 2002 and 2005 in each of the 25 transition countries included in our analysis for the data at the firm level, and the other sources for country level data. As noted above, the firms for which comparable data are available for both 2002 and 2005 are quite small compared to the full samples of each year.

The primary controls included in the vector  $R$  are the number of years the business had been in business the year of the survey, a dummy variable for large firm (defined as having more than 250 permanent, full-time employees), dummy variables for legal ownership of organization, state-owned, privatized (private, either corporate or non-corporate are the comparison variables) the identity of the largest shareholder (individual, foreign, bank or investment fund) and industry-specific dummy variables since some industries may have offered better environments for firm performance than others.

As noted above, we estimate the performance equation (2) first by OLS and subsequently by instrumental variables. We do so for each of the five different performance indicators (sales growth, export growth, asset growth and the shares of expenditures on new equipment and on research, respectively). In the case of the instrumental variables estimates, the variables in the  $S$  vector (either association, unofficial payments and tax payments in the first instance, or each of the six different functions of associations are estimated on the basis of equation (1) with the

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<sup>5</sup> The data used is from EBRD-World Bank Business Environment and Enterprise Performance Survey (BEEPS).

instruments indicated below. To satisfy the overidentification conditions for valid instruments in several cases, the choice of instruments had to be varied from one equation to another<sup>6</sup>.

Since the three growth measures (sales growth, export growth and asset growth) are all continuous, these performance equations are estimated by OLS. But since the other two variables (expenditures on new equipment as a percentage of sales and expenditures on research as a percentage of sales) are truncated from below at zero, for these two variants of equation (2) tobit estimates are used. By the same token, in the case of instrumental variables, for these same two variables, instrumental variables tobit, as opposed to ordinary instrumental variables estimates, are used.

We report corresponding results obtained for each different sample of data, 2002, 2005 or the smaller 2002-2005 panel. In the panel estimates we do not make use of firm-specific fixed effects because of the lack of variability in the firm characteristics between survey years (essentially the dataset contains two years of panel observations with gap of three years). As noted in Anderson and Hsiao (1981 and 1982) and Hsiao (2003), in cases when the number of years of observations is small or moderate in the panel, the “within” transformation does not produce a consistent estimator. Therefore, panel estimates obtained with firm fixed effects would not satisfy the criterion for consistent estimates. We conduct panel estimations with controlling for country and industry fixed effects.

In the instrumental variable estimates throughout the paper, the validity of the instruments has been checked by the Sargan (1958) test of overidentifying restrictions<sup>7</sup>. We also subject all the instrumented variables to tests for endogeneity by Hausman (1978). While in many cases, endogeneity was rejected, for comparability of results and completeness, regardless of outcome of this test, we present both OLS and IV results.

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<sup>6</sup> The following variables are used as instruments in the first-stage estimations: Percent Management Time Involved Handling with the Authorities, Information on the Laws and Regulations are Easy to Obtain, Interpretations of the Laws and Regulations are Consistent and Predictable, Importance of Labor Regulations, Overdue Payments, Importance of Customs and Trade Regulations, Importance of Business Licensing and Permits, Number of Days Experienced Utility Outages in a Year, Importance of Anticompetitive Behavior of Other Competitors, Importance of Title or Leasing of Land, Importance of Contract Violations by Customers and Suppliers.

<sup>7</sup> The null hypothesis is the excluded instruments are uncorrelated with the error term and correctly excluded from the estimated equation.

## V. *Empirical Results*

We turn first to the OLS estimates of each of the five performance indicators in Table 2. The results for 2002 are given in the top section of the table, those for 2005 in the middle section and those for the smaller 2002-2005 panel in the bottom section of the table. Note that for the two relatively large samples (the 2002 and 2005 cross sections) going across the association row shows that for each of the five performance measures, the effect of association on performance is positive and significant at the one percent level. For the considerably smaller panel, the significance levels of the association variable falls considerably. Even so, in two of the cases (sales growth and new equipment), the coefficients of association remain consistent at the 1 percent level, and in four of the five cases, significant at the 10 percent level.

By contrast, note that the effects of the other firm strategy choice (unofficial payments) are positive and significant in only two of the 15 cases, namely the shares of new equipment and research in total sales in the year 2002. Other results are that with only a couple of exceptions, the effects of years in business and state-owned are negative and significant, while those of large firm are positive and significant. In the case of privatized (the dummy variable for privatized firms) the effect is generally negative for 2002 but more likely to be positive in 2005. An obvious shortcoming of these OLS results is that, as suggested by the specification of equation (1), these strategic choices of association membership or unofficial payments may be endogenous to firm performance thereby biasing the estimates. For example, if more capable firms thought that they could better take advantage of association membership than others, the impact of association membership might well be an overestimate of the true effect.

It is to mitigate this potential problem that in Table 3 we also present the corresponding instrumental variable estimates for each of the five performance indicators and the three data sets. Once again for virtually all performance indicators and data sets, the effects of association are positive and significant at the 1 percent level. While the IV estimates show the effects of unofficial payments to be positive and generally significant in the case of the 2002 cross section, for the 2005 cross section and 2002-2005 panel, the effects of this variable are either negative or not significant. The effects of the other variables are generally quite similar to those in Table 2.

Hence, it should be quite clear that, regardless of sample and estimation procedure, Tables 2 and 3 demonstrate the positive effects of association membership on most if not all measures of performance. Yet, at the same time, by both estimation procedures the estimated effects also vary quite considerably from one performance indicator to another. The largest and most significant effects seem to be on sales growth, followed by those on expenditures on both new equipment and research. The smallest coefficients seem to be for export growth. In the case of expenditures on new equipment, the impacts of unofficial payments also tend to be rather positive whereas for the other performance indicators these same effects tend to be negative and in several cases also significant. Hence, it is important to distinguish the effects on different performance measures. As noted in Section II, several of the existing studies measure the effects of these variables on only a single measure of performance.

In tables 4 and 5 we turn our attention to the second of our objectives, namely, to compare the apparent effectiveness of the six different functions that associations provide to their members and which are captured in the BEEPS surveys. These are lobbying, dispute resolution, information relevant to domestic markets, information relevant to international markets, information about standards and information about government rules and regulations.

From the OLS and tobit estimates presented in Table 4, it can again be seen that there is considerable variability in the estimated impacts of the different individual functions of associations from one performance indicator to another. Some of these differences are quite intuitive. In particular, information on international markets has consistently the largest impacts on export growth, whereas lobbying has its largest effects on new equipment. The accrediting and standards function has its largest impacts on research and sales growth.

As noted above much of the literature has seemed to assume that lobbying is the primary function of associations, thereby either overlooking the functions that have more to do with the provision of information of one type or another. Notice, however that by comparing the magnitude and statistical significance of the coefficients of lobbying across these different columns for the different performance indicators, it is quite clear that in virtually every case the information functions have larger positive effects on the performance indicators than does the lobbying function. Dispute resolution also tends to have a larger and more significant effect on the performance indicators than does lobbying, especially in the case of research.

From the corresponding instrumental variable estimates in Table 5, it can be seen that the estimates are quite different from those in Table 4. Nevertheless many of the same patterns are clearly discernible. For example, the impacts of information on international product on export growth are relatively high, as are the effects of accrediting standards on research. Most importantly and most noticeably, the effects of lobbying are much weaker than are those of the information functions. Whereas in only two of the 15 sample-performance combinations are the coefficients of lobbying on performance positive and significant at the 5 percent level, those of information, (excluding the accrediting standards) are positive and significant at the 5 percent level in 13 of the 15 cases, and those of accrediting standards in 12 of the 15 cases. Table 6 provides the results when equations (1) and (2) are estimated using instrumental variables and instrumental variables, tobit method for each of the five performance measures when the country fixed effects are included and the 2002-2005 panel dataset is used. The results still remain invariant to the inclusion of the county fixed effect. From both Tables 4 and 5 and from Table 6 it can be concluded that the effects of the information functions seem to have grown in importance both absolutely and in relation to the lobbying function over time. It would seem increasingly clear that the information functions advocated by the foreign supported NGOs have become more important for most firm performance indicators than lobbying.

## ***VI. Conclusions***

The results presented here based on the BEEPS surveys of 2002 and 2005 allow us to draw the following conclusions:

- (1) Membership in business associations seems to have a much more positive effect on firm performance than unofficial payments to get around rules and regulations.
- (2) Among the six different functions that business associations the usefulness of which is evaluated by firms in the BEEPS samples, the various information functions have larger and more significant positive effects on performance than the lobbying function that has usually been most closely identified with business associations in the transition countries.
- (3) Both the impacts of association membership as a whole and those of the individual functions served by these associations vary in significance from one performance measure to another. Since in reality firm performance is multidimensional and the

relevance and importance of these different indicators will vary according to the characteristics and market environment of individual firms and countries, proper evaluations of the effects of membership services on firm performance should examine the effects on several different performance indicators instead of only one as is common in the literature. To maximize their usefulness to firms, business associations should tailor their services to the identified needs and performance priorities of the firms that they wish to serve.

- (4) Despite the short time –three years- between the surveys used in this study, it appears that the effects of unofficial payments on some of the performance indicators have declined over time while those of association membership have increased.
- (5) While the study has produced additional evidence of the potential biases arising from self-selection in measuring the effects of association membership and of the specific services they provide on firm performance, there is little evidence that the failure to consider such endogeneity leads to overestimates of such effects.
- (6) Since this study did not have access to information about the particular associations whose services were being analyzed by sample firms and yet the associations are known to be quite heterogeneous in size, membership, services and governance, to more properly evaluate the effects of individual associations would require combining the BEEPS surveys with corresponding surveys of the associations used by the sample firms.

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Table 1. Summary statistics of the variables used (Source: EBRD-World Bank Business Environment and Enterprise Performance Survey)

Year/Dataset	Panel				2002				2005			
Variable	Mean	Std. Dev.	Min	Max	Mean	Std. Dev.	Min	Max	Mean	Std. Dev.	Min	Max
Sales Growth	18.4	53.9	-90	600	32.2	79.3	-600	990	11.4	38.04	-95	300
Exports Growth	6.1	35.9	-90	500	5.30	35.05	-300	500	4.38	29.75	-90	800
Assets Growth	5.2	22.1	-95	300	45.1	62.48	-200	990	10.88	30.97	-95	500
New Equipment Percent Sales	24.8	135.2	0	4054	5.1	6.82	0	99	38.51	405.3	0	28764
Research Percent Sales	6.2	49.5	0	1738	2.11	5.51	0	80	12.25	117.96	0	5189
Member of Private Association	0.4	0.50	0	1	0.39	0.5	0	1	0.38	0.5	0	1
Unofficial Payments (% Sales)	1.2	3.01	0	50	1.50	3.20	0	50	0.89	2.4	0	50
Year2005	0.44	0.50	0	1								
Function of Association												
Lobbying Government	0.4	0.80	0	4	0.27	0.71	0	4	0.29	0.75	0	4
Resolution of Disputes	0.3	0.73	0	4	0.30	0.73	0	4	0.30	0.76	0	4
Information and/or Contacts on Domestic Markets	0.7	1.15	0	4	0.59	1.05	0	4	0.59	1.08	0	4
Information and/or Contacts on International Markets	0.6	1.05	0	4	0.47	0.95	0	4	0.48	0.99	0	4
Accreditation or Quality Standards	0.6	1.10	0	4	0.52	1.03	0	4	0.52	1.04	0	4
Information on Government Regulations	0.7	1.13	0	4	0.57	1.06	0	4	0.56	1.05	0	4
GDP in logs	7.5	1.0	5.2	9.3	2.8	0.6	1.3	3.8	7.8	0.8	6.1	9.3
Years in Business	16.5	19.48	1	151	14.55	18.68	3	202	15.54	17.4	4	180
Large Firm	0.1	0.32	0	1	0.14	0.34	0	1	0.10	0.30	0	1
Medium Employment Firm	0.2	0.38	0	1	0.18	0.38	0	1	0.19	0.39	0	1
Small Employment Firm	0.7	0.46	0	1	0.69	0.46	0	1	0.72	0.45	0	1
State Owned Firm	0.1	0.34	0	1	0.14	0.35	0	1	0.08	0.27	0	1
Private, Non Corporate Firm	0.6	0.49	0	1	0.59	0.49	0	1	0.65	0.48	0	1
Privatized	0.2	0.36	0	1	0.16	0.36	0	1	0.14	0.34	0	1
Originally Private	0.6	0.48	0	1	0.62	0.49	0	1	0.73	0.44	0	1
Largest Shareholder-Bank, or Investment Fund	0.04	0.20	0	1	0.00	0.07	0	1	0.07	0.25	0	1
Largest Shareholder - Foreign Company	0.1	0.28	0	1	0.10	0.30	0	1	0.06	0.24	0	1
Largest Shareholder - Individual	0.5	0.50	0	1	0.51	0.50	0	1	0.63	0.48	0	1
Manufacturing	0.2	0.41	0	1	0.17	0.38	0	1	0.42	0.49	0	1

Construction	0.1	0.29	0	1	0.09	0.29	0	1	0.09	0.29	0	1
Mining	0.01	0.09	0	1	0.01	0.09	0	1	0.01	0.09	0	1
Real Estate	0.1	0.33	0	1	0.09	0.28	0	1	0.10	0.30	0	1
Transport	0.07	0.25	0	1	0.06	0.25	0	1	0.07	0.26	0	1
Hotel, Restaurant	0.07	0.26	0	1	0.11	0.31	0	1	0.06	0.23	0	1
Wholesale, Retail	0.27	0.44	0	1	0.24	0.43	0	1	0.25	0.43	0	1
Overdue Payments	0.65	0.48	0	1	0.65	0.48	0	1	0.52	0.50	0	1
Percent Management Time Involved Handling with the Authorities	2.36	1.41	1	6	2.46	1.47	1	6	1.88	1.10	1	6
Information on the Laws and Regulations are Easy to Obtain	4.08	1.50	1	6	3.93	1.47	1	6	3.96	1.46	1	6
Interpretations of the Laws and Regulations are Consistent and Predictable	3.23	1.47	1	6	3.14	1.45	1	6	3.24	1.44	1	6
Importance of Labor Regulations	1.71	0.97	0	4	1.67	0.97	0	4	1.85	1.02	0	4
Importance of Customs and Trade Regulations	1.72	1.13	0	4	1.87	1.22	0	4	1.75	1.16	0	4
Importance of Business Licensing and Permits	1.87	1.10	0	4	1.95	1.12	0	4	1.89	1.08	0	4
Importance of Anticompetitive Behavior of Other Competitors	2.23	1.18	0	4	2.14	1.18	0	4	2.21	1.19	0	4
Importance of Title or Leasing of Land	1.43	1.01	0	4	1.39	1.04	0	4	1.56	1.07	0	4
Importance of Contract Violations by Customers and Suppliers	2.17	1.09	0	4	2.21	1.07	1	4	2.18	1.09	1	4
Number of Days Experienced Utility Outages in a Year	24.33	74.46	0	730	28.92	77.35	0	1095	12.75	58.33	0	912

Table 2. Estimates for firm performance variables when association membership and unofficial payments are among the explanatory variables. OLS and tobit estimations results for 2002, 2005, and Panel Datasets

	Sales Growth	Exports Growth	Assets Growth	New Equipment Percent Sales	Research Percent Sales
<b>2002 Dataset</b>					
Member of Private Association	11.69***	3.76***	5.19***	1.59***	1.55***
Unofficial Payments (% Sales)	-0.46	-0.12	-0.33	0.10**	0.24***
Years in Business	-0.32***	-0.09***	-0.24***	-0.02*	-0.01
Large Firm	16.26***	5.38***	5.40*	1.42***	3.37***
State Owned Firm	-14.74***	-3.97**	-12.09***	-2.08***	0.85
Privatized	-8.66**	-0.7	-6.42**	-1.22***	-0.33
Dummy variables of industry and largest shareholder					
Constant term	35.45***	5.48***	50.90***	3.41***	10.46***
Number of observations	5107	5107	5107	5095	5095
R-square	0.02	0.03	0.01	0.008	0.017
<b>2005 Dataset</b>					
Member of Private Association	4.58***	2.15***	4.49***	8.75***	17.25***
Unofficial Payments (% Sales)	0.1	-0.15	-0.16	-0.09	0.74
Years in Business	-0.17***	-0.06**	-0.11***	-0.01	0.06
Large Firm	8.43***	6.92***	4.06***	-5.66***	-0.85
State Owned Firm	-0.22	-0.41	-6.77***	-4.71***	2.38
Privatized	2.12	2.11*	-4.00***	1.28	9.49**
Dummy variables of industry and largest shareholder					
Constant term	4.46**	0.43	9.00***	-21.56***	42.89***
Number of observations	6357	6357	6357	5516	5516
R-square	0.02	0.02	0.02	0.007	0.053
<b>Panel</b>					
Member of Private Association	7.28***	1.58	1.62*	4.19***	1.47*
Unofficial Payments (% Sales)	0.23	-0.06	-0.11	0.06	0.07
Years in Business	-12.92***	-2.6	10.00***	-1.28*	-12.94***
Large Firm	-0.24***	-0.02	-0.04	-0.03	0.05**
State Owned Firm	9.37**	4.54*	1.87	-0.13	-0.44
Privatized	-3.72	-3.96	-2.86	-0.75	2.5
Dummy variables of industry and largest shareholder					
Constant term	21.53***	4.77**	0.88	12.81***	13.47***
Number of observations	2331	2331	2331	2152	2152
R-square	0.04	0.03	0.06	0.012	0.032

\*\*\* Indicates significant at 1 percent level, \*\* Indicates significant at 5 percent level, \* Indicates significant at 10 percent level.

Table 3. Estimates for firm performance variables when association membership and unofficial payments are among the explanatory variables. Instrumental variables and instrumental variables tobit estimations results for 2002, 2005, and Panel Datasets

	Sales Growth	Exports Growth	Assets Growth	New Equipment Percent Sales	Research Percent Sales
<b>2002 Dataset</b>					
Member of Private Association	57.93***	16.66***	31.09***	5.66***	6.06***
Unofficial Payments (% Sales)	1.48	1.94**	3.62**	0.89***	1.55***
Years in Business	-0.41***	-0.12***	-0.29***	-0.02**	-0.01
Large Firm	9.29**	3.73*	2.73	1.01*	2.82***
State Owned Firm	-5.94	0.36	-3.41	-0.58	2.78***
Privatized	-10.34***	-0.89	-6.17**	-0.93**	-0.09
Dummy variables of industry and largest shareholder					
Constant term	12.6	-3.73	32.75***	0.22	-9.56***
Number of observations	4753	4753	4753	4961	4949
<b>2005 Dataset</b>					
Member of Private Association	17.57**	8.14*	16.75***	45.54***	51.17***
Unofficial Payments (% Sales)	-7.79***	-3.00**	-1.28	1.11	5.54
Years in Business	-0.28***	-0.11***	-0.17***	-0.16***	-0.05
Large Firm	3.71	5.02***	1.16	-11.54***	-5.96
State Owned Firm	0.26	-0.21	-5.57***	-0.24	7.87
Privatized	1.75	1.97	-4.27***	1.11	9.41**
Dummy variables of industry and largest shareholder					
Constant term	8.10**	1.39	6.33***	-18.24***	-106.65***
Number of observations	6357	6214	6357	5516	5380
<b>Panel Dataset</b>					
Member of Private Association	64.92***	23.07***	8.08*	117.98***	92.73***
Unofficial Payments (% Sales)	-5.99*	-0.03	-1.52*	6.44	6.77
Years in Business	-0.51***	-0.1	-0.03	-0.69**	-0.32
Large Firm	-5.19	1.65	-1.52	90.91***	42.95***
State Owned Firm	1.56	-1.25	-3.17	43.28**	44.97***
Privatized	-5.55	-1.92	-2.67*	13.01	6.05
Dummy variables of industry and largest shareholder					
Constant term	10.87	-4.22	1.41	-93.69***	-144.64***
Number of observations	2010	2010	2331	2331	2331

\*\*\* Indicates significant at 1 percent level, \*\* Indicates significant at 5 percent level, \* Indicates significant at 10 percent level.

Table 4. Estimates for firm performance variables when the functions of association are among the explanatory variables. OLS and tobit estimations results for 2002, 2005, and Panel

Datasets					
2002 Dataset	Sales Growth	Exports Growth	Assets Growth	New Equipment Percent Sales	Research Percent Sales
2002 Dataset					
Lobbying Government	1.64	-0.42	0.8	0.55***	0.71***
Resolution of Disputes	0.36	0.44	0.82	0.73***	0.97***
Information and/or Contacts on Domestic Markets	2.54**	0.95**	0.84	0.62***	0.87***
Information and/or Contacts on International Markets	1.63	1.52***	0.29	0.64***	0.97***
Accreditation or Quality Standards	2.08*	1.12**	0.97	0.58***	1.11***
Information on Government Regulations	2.52**	0.54	1.18	0.59***	1.04***
Number of observations (range)	5107	5107	5107	5095	5095
R-square (range)	0.017-0.018	0.023-0.025	0.01-0.02	0.0071-0.0077	0.015-0.017
2005 Dataset					
Lobbying Government	2.07***	0.53	1.07**	3.08***	6.78***
Resolution of Disputes	2.21***	0.58	1.15**	2.44***	7.08***
Information and/or Contacts on Domestic Markets	1.98***	0.82**	1.18***	3.03***	6.89***
Information and/or Contacts on International Markets	2.15***	1.65***	0.95**	2.97***	7.14***
Accreditation or Quality Standards	2.56***	0.97***	1.17***	2.72***	6.46***
Information on Government Regulations	2.74***	0.68*	1.79***	3.23***	7.60***
Number of observations (range)	6357	6357	6357	5516	5516
R-square (range)	0.01-0.02	0.01-0.02	0.01-0.02	0.0058-0.0068	0.0484-0.0539
Panel					
Lobbying Government	1.59	0.24	-0.03	1.08***	0.09
Resolution of Disputes	3.26**	0.32	0.35	0.66	1.17**
Information and/or Contacts on Domestic Markets	2.25**	2.43***	0.48	1.36***	1.30***
Information and/or Contacts on International Markets	2.60**	3.10***	0.39	1.33***	1.41***
Accreditation or Quality Standards	3.74***	2.31***	0.39	1.15***	1.23***
Information on Government Regulations	2.76***	2.29***	0.54	1.40***	1.31***
Number of observations (range)	2331	2331	2331	2152	2152
R-square (range)	0.03-0.04	0.02-0.03	0.05-0.06	0.01-0.011	0.03-0.034

\*\*\* Indicates significant at 1 percent level, \*\* Indicates significant at 5 percent level, \* Indicates significant at 10 percent level.

Table 5. Estimates for firm performance variables when the functions of association are among the explanatory variables. Instrumental variables and instrumental variables tobit estimations results for 2002, 2005, and Panel Datasets

	Sales Growth	Exports Growth	Assets Growth	New Equipment Percent Sales	Research Percent Sales
2002 Dataset					
Lobbying Government	29.66	14.78**	-17.04	-0.48	-2.76
Resolution of Disputes	48.41***	17.74*	-17.32	0.33	-3.5
Information and/or Contacts on Domestic Markets	27.34***	7.61**	-11.65*	3.96***	4.40***
Information and/or Contacts on International Markets	32.36***	9.95**	-11.24	2.53**	6.14***
Accreditation or Quality Standards	31.40***	8.59**	-13.89*	2.61**	5.36***
Information on Government Regulations	27.25***	6.64**	-12.76*	5.11***	6.71***
Number of observations (range)	5107	5107	5107	4972-5107	4972-5107
2005 Dataset					
Lobbying Government	19.70*	2.71	15.00**	-10.99	-10.98
Resolution of Disputes	32.01*	2.88	14.68***	1.98	9.95
Information and/or Contacts on Domestic Markets	10.04**	0.86	11.15***	23.98***	43.81***
Information and/or Contacts on International Markets	13.15**	1.89	10.96***	25.14***	39.87***
Accreditation or Quality Standards	9.76*	1.26	11.23***	24.79***	52.08***
Information on Government Regulations	10.15**	0.64	11.35***	23.73***	40.97***
Number of observations (range)	6160-6357	6160-6357	6160-6357	4574-5516	4574-5516
Panel					
Lobbying Government	26.74*	-0.89	4.47	50.25	27.18
Resolution of Disputes	24.38*	0.79	4.65	24.08	31.28
Information and/or Contacts on Domestic Markets	28.17***	10.08**	5.19**	69.11***	45.87**
Information and/or Contacts on International Markets	42.11***	14.36***	5.27**	62.27**	66.40***
Accreditation or Quality Standards	49.63***	15.65***	6.03**	76.95**	64.95***
Information on Government Regulations	29.42***	11.06**	5.01**	68.82***	57.52***
Number of observations (range)	2010-2331	2010-2331	2010-2331	2010-2331	2010-2331

\*\*\* Indicates significant at 1 percent level, \*\* Indicates significant at 5 percent level, \* Indicates significant at 10 percent level.

Table 6. Instrumental variables and instrumental variables tobit estimations results with the country fixed effects for firm performance variables when the panel dataset is used

	Sales Growth	Exports Growth	Assets Growth	New Equipment Percent Sales	Research Percent Sales
Member of Private Association	126.16***	27.43*	10.58	154.30***	145.84**
Unofficial Payments (% Sales)	-7.78*	-0.93	-2.20**	0.11	3.25
Years in Business	-0.58***	-0.1	-0.04	-0.56**	-0.52*
Large Firm	-17.29*	0.12	-2.33	57.44***	30.62*
State Owned Firm	-4.06	-3.44	-4.23**	35.55**	48.26***
Privatized	-7.49	-1.63	-2.56*	15.62	7.36
Dummy variables of industry and largest shareholder					
Constant term	22.86	0.08	5.93	-126.03***	-177.56***
Number of observations	2010	2010	2010	2010	2331

	Sales Growth	Exports Growth	Assets Growth	New Equipment Percent Sales	Research Percent Sales
Lobbying Government	39.07	-8.65	-2.86	19.71	27.95
Resolution of Disputes	35.77*	-5.65	-7.04	47.11	24.95
Information and/or Contacts on Domestic Markets	19.56**	13.72**	5.04*	40.70*	44.19*
Information and/or Contacts on International Markets	44.35***	15.03***	4.54*	42.54*	70.76***
Accreditation or Quality Standards	42.60***	11.97*	5.85*	50.63**	76.31**
Information on Government Regulations	22.59**	16.49**	4.71	53.69**	73.86***
Number of observations (range)	2010-2331	2010-2331	2010-2331	2010-2331	2010-2331

\*\*\* Indicates significant at 1 percent level, \*\* Indicates significant at 5 percent level, \* Indicates significant at 10 percent level.