Renting Elected Office:

Why Businesspeople Become Politicians in Russia

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ABSTRACT

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Why do some businesspeople run for political office, while others do not? Sending directors into elected office is one of the most powerful but also resource-intensive ways firms can influence policymaking. Although legislative bodies are populated with businesspeople in countries worldwide, we know little about which firms decide to invest in this unique type of nonmarket strategy. In response, I argue that businesspeople run for elected office when (1) they cannot trust that the politicians they lobby will represent their interests and (2) their firms have the resources available to contest elections. My theory predicts the probability of politician shirking (reneging on their promises) depends on whether rival firms have representatives in parliament and political parties are capable of enforcing informal quid pro quo agreements. Evidence to test my arguments comes from an original dataset of 8,829 firms connected to candidates to regional legislatures in Russia from 2004-2011. I find that both greater oligopolistic competition and weaker political parties incentivize businessperson candidacy, while the ability to cover campaign costs depends on the level of voter income and firm size.

Do firms with directors holding elected political office then benefit from political connections? Using the same dataset but restricting the analysis to elections in single-member districts, I next employ a regression discontinuity design to identify the causal effect of gaining political ties, comparing outcomes of firms that are directed by candidates who either won or lost close elections to regional legislatures. I first find that a connection to a winning politician can increase revenue by roughly

60% and profit margins by 15% over their time in office. I then test between different mechanisms potentially explaining the results, finding that connected firms improve their performance by gaining access to bureaucrats and reducing information costs, and not by signaling legitimacy to financiers. Finally, winning a parliamentary seat is more valuable for firms where democratization is greater, but less valuable when firms face acute sector-level competition. This finding suggests that the intensity of economic rivalry, rather than the quality of political institutions, best explains the decision to send a director into public office.

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For

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Chapter 1

Introduction

"You can't get by here without help from the government."

Aleksandr Shpeter

Director, Tomsk Housing Construction Company

Deputy, Tomsk Region Legislative Duma

By the end of 2006, competition in the construction sector was really starting to heat up in the city of Tomsk, a charming academic center in Russia dubbed the "Siberian Athens" for the numerous universities that call the city home.[1] Rising oil prices were fueling an economic recovery countrywide. Longtime mayor Aleksandr Makarov, who wielded considerable and often times illegal control over real estate activities, had been arrested for possessing over $1.5 million in cash[2] and 400 grams of opium,[3] among other accusations. A new political era in the allocation of land was in store. Earlier that year, the city had also decided to completely transition to an open auction-based system to sell plots of land to developers, instead of signing

[1]Epigraph quoted from published interview: Vygon, Solomon. October 18-24, 2006 "Aleksandr Shpeter: Glowing New Windows of A House - a Balm for the Soul." *Argumenty i Fakty* http://old.duma.tomsk.ru/page/7021/ (accessed March 8, 2016)

[2]RIA Novosti. December 13, 2006 "Graft Probe Targeting Siberian Mayor Reveals Large Sums in Cash." http://sputniknews.com/russia/20061213/56848011.html (accessed March 15, 2016)

[3]Abdullaev, Nabi. "Former Tomsk Mayor Facing Drug Charges." December 29, 2006. *Moscow Times* http://www.themoscowtimes.com/sitemap/free/2006/12/article/former-tomsk-mayor-facing-drug-charges/199983.html (accessed March 15, 2016)

agreements individually as in the past.[4] With construction companies from Moscow and Turkey threatening to enter the Tomsk market and get in on the action, the director of one of the largest firms in the region Aleksandr Shpeter remarked warily: "Competitors don't bring money. They come to collect it."[5]

But just seven years later, the situation had changed dramatically. The worldwide financial crisis of 2008 had rocked Tomsk Region, sending the construction industry into a deep spiral with year-on-year contractions reaching 40%.[6] Companies were caught spreading rumors to potential customers that their competitors were bankrupt, hoping to capitalize on what remaining demand for housing existed.[7] But through all the wreckage, one company, Shpeter's Tomsk Housing Construction Company (TDSK), emerged triumphant. By 2013, TDSK was firmly the dominant player in the Tomsk construction industry, with a 42% market share and over 5,000 employees.[8] Overall, the company grew at a healthy 25% clip in the years following the crisis, reaching revenue of nearly 2 billion rubles ($50 million) by 2014.

What explains this sharp divergence of fortunes between the economic winners and losers? This dissertation argues that in addition to examining the basic fundamentals of a firm in order to predict market success, we need to look at the specific political activities taken by firm directors and managers. In the case of TDSK in Tomsk, this means paying attention to the fact that Shpeter, director and plurality

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[4] Tomskiy Obzor. March 10, 2006 "V Aprele v Tomske, Dolzhen Sostoytsya Perviy Aukstion Po Prodazhe Zemelyniy Uchastkov Pod Stroitelstvo" http://obzor.westsib.ru/news/61051 (accessed March 15, 2016)

[5] Vygon, Solomon. October 18-24, 2006. "Aleksandr Shpeter: Glowing New Windows of A House - a Balm for the Soul". *Argumenty i Fakty* http://old.duma.tomsk.ru/page/7021/ (accessed March 8, 2016)

[6] Ivonina, Alla. April 30, 2009 "Tomskii Stroitelniy Kompleks: Thrown Back Five Years" *Vsyo Delo V Tomske* http://delo-tomsk.ru/for-business/articles/181/ (accessed March 15, 2016)

[7] Petrov, Ilya. November 11, 2008 "Ryad Tomskiy Stroitelniy Kompanii Stolknulis s Nedobrosovectniyi Konkurentsii *Chas Pik, Tomsk 2 TV* http://www.tv2.tomsk.ru/video-chas-pick/ryad-tomskikh-stroitelnykh-kompanii-stolknulis-s-nedobrosovestnoi-konkurentsii (accessed March 16, 2016)

[8] Mikhailov, Vladislav. March 11, 2013 "Raveneniye Na Million." *Ekspert Online* http://expert.ru/siberia/2013/10/ravnenie-na-million/ (accessed March 16, 2016)

owner since the firm was privatized in 1991, also ran for and won elected office for the first time in 2007 as a deputy in the Tomsk Regional Duma (the regional legislature). Beginning as early 2009, public suspicions were raised that Shpeter was using his influence within the government to win valuable state contracts, secure loans from investment banks, and win state guarantees.[9] This preferential treatment was meted out even amidst both independent and state auditing reports finding that TDSK was ineffectively using loan money guaranteed by the government and that bankruptcy procedures were tilted significantly in favor of the company. In the post-crisis period, winning new construction contracts now required getting on the 'white list', a list of preferred developers who had a significant leg up in their relations with the government.[10] In 2013, leader of the local opposition political party Patriots of Russia Evgeny Krotov decried the consolidation in the construction sector, complaining that "practically all free plots in the city have been snatched up by ... (deputy) Shpeter ... and (Boris) Maltsev," another regional deputy and prominent figure in the local construction industry.[11] Vice-Mayor of Tomsk Evgeniy Parshuto commented that four other local, large construction companies "had simply disappeared from the market."[12]

In this dissertation, I analyze the determinants and consequences of this unique variant of corporate political strategy: businessperson candidacy. I define a businessperson candidate as any individual who ran for elected office while simultaneously serving as director, deputy director or on the board of directors at the time of

[9]Sergeev, Anatoliy. May 20, 2009 "Stroisya, Kto Mozhet" *Noviye Izvestiye* http://www.newizv.ru/economics/2009-05-20/109067-strojsja-kto-mozhet.html (accessed March 16, 2016)

[10]Interview with Vasiliy Semkin, deputy of Tomsk Regional Duma. Tomsk, Russia June 11, 2014

[11]Press Service of the Tomsk Regional Branch of the 'Patriots of Russia' Political Party. September 24, 2013 "Evgeny Krotov Calls for Competition in the Construction Sector" http://www.patriot-rus.ru/news/glavnyie-novosti/evgenij-krotov-vyistupaet-za-konkurencziyu-v-stroitelnoj-otrasli.html (accessed March 8, 2016)

[12]Mikhailov, Vladislav. April 30, 2012 "Stroika Posle Nokdouna." *Ekspert Sibir* No. 17-18 (330) http://expert.ru/siberia/2012/18/strojka-posle-nokdauna/ (accessed March 16, 2016)

his or her electoral campaign.[13] Active firm directors like Mr. Shpeter from TDSK abound in legislatures around the world. Table 1.1 provides a snapshot from recent political science research about the percentage of either candidates to or members of national legislatures worldwide that have business sector experience. As one can clearly see, this phenomenon is not at all unusual to Russia or the post-Soviet region. In work on 18 countries in Latin America, Barndt (2014) finds that 118 of 278 political parties during the period of 1975-2009 had at least one business leader. Businesspeople running for in higher office are also a mainstay in a variety of political contexts, such as following popular uprisings like the Arab Spring[14] and in states marked by 'frozen conflicts.'[15] Obviously, a background in the private sector does not preordain that an elected official will continue to represent his or her company's interests while in public office. But as this dissertation will show both qualitative and quantitatively, there are real incentives for such businesspeople to utilize the access and influence that come from elected positions to benefit their firms. Unfortunately to date, systematic, cross-national data about the extent to which businesspeople populate government institutions around this world is simply unavailable.

The phenomenon of businessperson politicians is also in no way confined to developing democracies or authoritarian regimes. Nearly half of members of the British Parliament in the late nineteenth century served as company directors, who then used their connections to benefit their 'new tech' firms (Braggion and Moore 2013). In their book on the political causes of inequality in the United States, Jacob

[13]In countries such as Russia, the title of firm director is equivalent to the Western titles of Corporate Executive Officer (CEO) or Director General.

[14]Shahine, Alaa. June 2, 2011 "Billionaire Sawiris Leads Egypt Businessmen Back in Politics." *Bloomberg Business*. http://www.bloomberg.com/news/articles/2011-06-01/billionaire-sawiris-leads-egypt-businessmen-back-in-politics (accessed February 13, 2015)

[15]BBC Monitoring Kiev Unit. December 28, 2010 "New Parliament in Moldova's Rebel Region Dominated by Businessmen." *British Broadcasting Corporation*

Hacker and Paul Pierson write:

> Our generation is not the first in which the optimistic prediction that democracy will naturally temper excesses of income and wealth has failed to ring true. In the early twentieth century, similar problems–and laments–were widespread. Financial and industrial titans commanded vast economic power that they used not just to despoil the environment, suppress workers' attempts to organize, and head off consumer protections, but also to buy off politicians who might stand in their way. The problem was particularly acute in the U.S. Senate whose members were still appointed by state governments. The legendary journalist William Allen White portrayed the institution as a "millionaires' club", where a member, "represented something more than a state, more than even a region. He represented principalities and powers in business. One Senator ... represents the Union Pacific Railway System; another the New York Central; still another the insurance interests of New York and New Jersey" (Hacker and Pierson 2011, pp. 79).

Approximately 20% of members of several recent convocations of the U.S. House of Representatives have been businesspeople, a percentage that has remained remarkably steady over the last 100 years (Carnes 2012). Furthermore, any casual observer of U.S. presidential elections cannot fail to notice candidates such as Donald Trump, Carly Fiorina and Mitt Romney strategically wielding their experience in the business world as a qualification to run for the country's highest office. Work on so-called 'moonlighting politicians', members of parliament that continue to work in the private sector after election, has also noted sizable shares of policymakers with outside private sector employment in Italy, the United Kingdom and Canada, among others (Gagliarducci, Nannicini, and Naticchioni 2010; Pan et al. 2014). Other research has found that lawyer-legislators in the United States Congress have used their elected positions to vote for increased tort liability, which would improve their private professional interests (Matter and Stutzer 2015). In sum, businesspeople have run for elected office across a variety of settings and time periods, potentially impacting how laws are made for and economic spoils distributed in important ways.

Table 1.1: Percentage of Businesspeople in National Legislatures

Country	Pct. (%)	Year	Type	Source
Bangladesh	59	2008	Members	Chowdhury (2009)
Benin	31	2011	Members	Koter (2014)
Chile	19	2001	Members	Carnes and Lupu (2015)
China	17	2008	Members	Truex (2014)
Cyprus	21	2011	Members	Katsourides (2012)
Kyrgyzstan	27	2005	Candidates	Sjöberg (2011)
Mexico	18	2000	Members	Carnes and Lupu (2015)
Thailand	17	2005	Candidates	Croissant and Pojar Jr (2005)
Uganda	16	2011	Members	Josefsson (2014)
Ukraine	30	2007	Members	Semenova (2012)

1.1 Puzzle and Theoretical Arguments

The prevalence of this strategy – businesspeople holding elected office to help their firms – around the world begs the first question tackled by this dissertation: why do some businesspeople run for political office, while others do not? After all, firms have multiple avenues for entering the political arena. The extant literature on corporate political strategies, or ways by which firms attempt to influence politics, has tended to focus on the two types viewed as the most dominant: lobbying and making campaign contributions (Coen, Grant, and Wilson 2012). Both lobbying and contributing to campaigns are examples of what I term *indirect* corporate political strategies. Firms contribute information, money, and/or votes to politicians in exchange for access and influence (Hillman and Hitt 1999). Politicians then become intermediaries and advocate on the firm's behalf to achieve its policy goals. Though larger contributions are presumed to increase the probability that a politician will implement the 'bought' policy, indirect strategies provide no formal guarantee that the exchange of policy will take place.

The choice to send representatives from the firm directly into political office differs markedly from lobbying or making campaign contributions. Running directors or managers for elected office removes the need for political intermediaries, rendering this a 'direct' corporate political strategy. Direct strategies more closely bind the politician to a firm and provide a stronger guarantee that an individual firm's interests will be represented. Because of this, businessperson candidacy is at once the most influential form of corporate political strategy as well as the costliest along a number of different dimensions. In Thailand, businessmen politicians are intimately involved in drafting and changing legislation to suit their firms' interests, such as altering regulations, passing protectionist policies, and driving through new state contracts designed for their enterprise (Bunkanwanicha and Wiwattanakantang 2006). In Russia, businessmen legislators can gain unfettered access to the executive branch by virtue of their political status and weight in opening doors to bureaucrats (Sakaeva 2012). Evidence from China suggests that entrepreneurs that are members of formal political institutions utilize preferential access to loans from banks or other state institutions (Li et al. 2008). This access and influence comes however at a significant cost. Firms must pay for their candidate's electoral campaign or chalk up the money to pay for a spot on the party list (Engvall 2014).[16] Once in office, businessperson politicians acquire a whole new set of political responsibilities (and constituents) in addition to their normal demands at the workplace. Which firms then decide to shoulder these considerable financial demands for the chance to achieve direct representation in a legislature?

In this dissertation, I first argue that businesspeople run for elected office when they cannot trust that the politicians they lobby or fiscally contribute to will represent their interests. At heart is a micro-level commitment problem related to policy formation: firm directors have no guarantee that the money they give to a politician will be returned in-kind with policy. In other words, due to a lack of formal insti-

[16]Mereu, Francesca. November 11, 2003 "Business Will Have Big Voice in Duma". *Moscow Times*. http://www.themoscowtimes.com/sitemap/free/2003/11/article/business-will-have-big-voice-in-duma/234678.html (accessed February 26, 2016)

tutions to structure transactions, firms cannot specify a *quid pro quo* arrangement with politicians where policy influence is traded for political contributions such as money, information and/or votes. When these other forms of access break down, directly occupying a legislative seat, then, becomes the only viable legal avenue for firms to achieve their desired policies. Several factors exacerbate the severity of the commitment problem. First, I argue that acute economic competition increases the likelihood that competitors will seek political influence. Winning access to exclusive policymaking clubs like legislatures enables a firm director to undermine and even block attempts by his or her rivals to cultivate political access using indirect strategies.

Next, all firms would be better off if none of their directors personally ran for public office; they could save on the costs of the campaign and delegate politics to the politicians. The absence of strong political parties prevents firms from aggregating their interests and cooperating to check the reneging impulses of designated political representatives. Institutionalized parties care about long-term reputation and work to cultivate sustained ties with donors such as firms by carrying out campaign promises. Greater party discipline thus curbs defections by member politicians and facilitates *quid pro quo* transactions with interest groups. This explanation of businessperson candidacy differs from the current literature, which emphasizes the importance of the quality of electoral institutions in shaping the incentives for firm directors to run (Gehlbach, Sonin, and Zhuravskaya 2010). I argue that the median voter is not central to the decision-making calculus of businesspeople. Concern over politicians reneging on agreements, and not voters punishing corruption, drives firms to consider alternative methods to achieve policy influence. Empirically I find that greater transparency and electoral accountability are not significantly correlated with the probability of a firm adopting the strategy of businessperson candidacy.

Businesspeople must also pay sizable costs in order to win electoral campaigns;

as those costs rise, the attractiveness of candidacy is diminished. I argue that larger firms (as measured by either the amount of financial assets or the size of their workforce) will have greater resources to pursue this type of corporate political strategy and thus will be more likely to put forth candidates. The cost of running an electoral campaign also depends on the income of the constituency to be courted, since most expenses, such as paying activists and printing campaign materials, need to be paid locally. Firms located in wealthier regions will be less likely to run candidates, since these costs of attracting voter support start to outweigh the potential benefits of having a director in office.

Evidence to support my arguments comes from an original dataset of businessperson candidates in Russia. I first compiled information on 41,471 candidates to 83 regional legislatures from 2004-2012, gathering demographics such as birthdate, gender, and place of employment. Next, using a Python algorithm to mine a database of firm registrations, I identified all firms these candidates served as director or on the board of directors at the time of their electoral campaign. In all, I successfully matched candidates using their name, birthdate, and region to 8,829 affiliated firms. I then collected financial data on the universe of two million Russian firms, such as assets, turnover, and employment. I used these data to generate firm-level and sector-level variables as well as compiled a separate dataset of regional-level variables to examine alternate explanations.[17] In addition, I draw upon over 40 semi-structured interviews with a range of actors influential in Russian regions. Throughout 2013 and 2014, I spoke with businessperson candidates (winning and losing), deputies without direct business interests, journalists, academics, and civil society representatives from three regions in Russia: Tomsk, Ryazan, and Perm. The discussions will draw upon these wide-ranging conversations, helping

[17]For a detailed description of the firm-level data used throughout this dissertation, please consult the Data Appendix.

fill in key details about why businesspeople decide to run for office and how they potentially extract private benefits for their firms.

Once businesspeople decide to run for legislative office, several tough choices remain. First, they need to choose which ballot to run on: through a single-member district (the plurality system) or on a party list (the proportional representation system). This decision can have significant implications for their ability to represent their firms' interests while in office. First, I argue that firms prefer going through the single-member district route due to the independence that such a seat provides. Deputies representing specific geographic or economic constituencies, instead of nationwide populaces, enjoy more autonomy to pursue their narrow, local interests rather than toeing the party line (Thames 2005; Tavits 2009). However, the costs of running in a plurality race are measurably higher since candidates receive little if any party support to finance their campaigns. Using the above described dataset, I find that in businesspeople are more likely to run in single-member districts. Larger firms are more able to afford going this route, due to their superior financial assets and larger number of employees, while firms located in wealthier regions, where the cost of courting voters is higher, are deterred by the financial obligations and opt for the party list.

Next, which party will businesspeople affiliate themselves with, if any? For over a decade, Russia has been dominated by the United Russia ruling party, which has achieved a majority of seats in nearly every regional legislature during the period. I argue that becoming a member of this party confers extra dividends to businesspeople, given its close connections to the executive branch and wider bureaucracy. These benefits come at a price, however, since an endorsement from United Russia or high spot on its party list can provide the pivotal edge in a contested electoral campaign. Therefore, firms with more financial resources will be more likely to run as members of this party, as will state-owned enterprises at the regional and federal levels whose economic activities more critically depend on buy-in from higher-level government officials. I find empirical evidence in support of both hypotheses. Lastly, firms from the same sector that run directors for political office are less likely to land under the umbrella of a single political party. Parties are used as vehicles for competing economic interests rather than forums for aggregating similar sectoral needs.

The final question addressed in this dissertation tests the assumption that businessperson candidates run for office in order to achieve preferential treatment for their firms: do firms in reality benefit from having their director hold elected political office? To answer this question, I employ a regression discontinuity (RD) design to identify the causal effect of political connections on firm-level outcomes. I exploit close elections where the determination of the winner and runner-up is near randomly assigned (Lee 2008; Eggers et al. 2014). Capitalizing on this discontinuity in the assignment to treatment, the RD design can causally attribute any differences in profitability, revenue, or other measures of the candidates' firm performance to the effect of winning elected office. Results indicate that firms indeed derive significant benefits from having their director win political office at the regional level in Russia. Firms connected to winning candidates increase revenue of 60% and profit margin by 15% in the final year these candidates spend in office. These results are statistically significant, pass a number of robustness checks that vary RD specifications, and reflect a local average treatment effect for firms located near the winning threshold.

Several underlying mechanisms are consistent with these findings. Direct ties to politicians may benefit firms by improving their reputation among financiers and investors or, alternately, by opening doors to bureaucrats and favorable state treatment. The distinction between the channels is important for informing how policymakers to develop regulation that curbs rent-seeking. If weak legal institutions induce companies to build political ties in an attempt to secure financing, then strengthening rule of law and contract enforcement should be paramount. On the other hand, if connected politicians are abusing access to regulators and state agencies, public service reform should come first. To test between the two mechanisms, I collect empirical data on ways firm directors could convert their legislative power into performance improvements. I find that serving in office helps businessperson politicians win additional state contracts for their companies, but not increase their financial leverage. These findings suggest that connections are not alleviating credit constraints, but instead reducing information and transaction costs in dealing with government officials.

I then exploit region-level variation to examine how structural and institutional characteristics affect the payoffs of cultivating political relationships. First, somewhat counterintuitively, revenue and profits are higher for winning firms located in regions with more democratic institutions. I argue that when legislatures are able to exert policymaking authority and serve as a check on the executive, the opportunities to redirect budgetary resources to private interests are greater. Firms that are allied with the ruling party also see somewhat higher returns from winning office compared to the firms of those members of the party who lose office. Winning opposition-oriented candidates also gain large dividends for their firms, suggesting that regimes use political institutions to distribute rents to both supporters and potential opponents. More intense political battles within parliament may require more government resources to buy off all connected firms. This paper thus offers an important example of a situation where political competition does not check rent-seeking. Strong economic competition, however, reduces of the value of winning office for firms. When winning firms encounter sectoral rivals who have also secured a seat in a parliament, they find it more difficult to carve out private benefits. In this manner, deliberation within the parliament is most akin to a marketplace, with profit margins dropping with new entrants. Businessperson politicians representing firms from more oligopolistic industries earn greater returns than those adopting other types of corporate political strategies. Lastly, political ties are more valuable in regions with natural resources, since the overall economic pie and relevant budgetary resources are larger for firms to take advantage of.

In summary, businesspeople care about getting a return on the investments needed to win a spot in politics: if an individual spends five million rubles on an electoral campaign, then he or she will want ten million rubles in return by the end of their term.[18] Holding office becomes just another aspect of their business, part of the normal trading and negotiating activities a director needs to engage in to run a profitable firm. But widespread (and successful) businessperson candidacies also have consequences for how competitive advantage is created. CEOs that serve as legislators have greater leeway to engineer the allocation of government rents towards their companies and away from constituents. Granting powerful corporations unmediated access to policymaking also can create enormous leverage to be used to squeeze out both foreign and domestic rivals from the market.

1.2 The Case of Russia

Focusing on businessperson candidacy in post-Soviet Russia offers several unique opportunities to study the phenomenon. First, since the fall of the Soviet Union, private businesspeople have actively participated in election campaigns at multiple levels of government, providing important variation for analyzing the determinants of businessperson candidacy. During the early 1990s when the country was taking its first steps towards democratic competition, several political parties were headed

[18]Interview with Vasiliy Semkin, businessman and deputy of Tomsk Regional Duma, Tomsk, Russia. June 11, 2014; Interview with Vitalii Kovin, leader of Perm Golos organization, Perm, Russia. October 7, 2013

by prominent businesspeople, including the Party of Economic Freedom created by the president of the Russian Commodities and Raw Materials Exchange Konstantin Borovoi in 1992 and the Russian Socialist Party created by the president of LC Ferein Vladimir Bryntsalov in 1994.[19] Even into the early 2000s, large oligarchs were still playing an outsized role in Russian politics. Suspicions have flown that the real reason behind the infamous arrest and jailing of Yukos CEO Mikhail Khorokovsky in 2003 was his overt funding of opposition parties such as Yabloko; in fact, three top-level Yukos executives were members of the 2003 Russian State Duma representing Yabloko.[20] In all, roughly 20% of all parliamentary candidates at the national level in 2003 were officially linked to large or medium-size businesses, most with high spots on the lists.[21] These candidates represented parties from across the spectrum, from the nascent ruling United Russia party to even the Communist Party of the Russian Federation, which faced internal strife for filling its ranks with millionaires alongside factory workers.[22]

Similar numbers of legislative candidates at the regional level in Russia hail from the private sector. Using the dataset of electoral candidates at the core of this dissertation, I find that approximately 21% served as a director of a firm at the time of their campaigns. This proportion aligns with the figures presented in Smyth (2005) that show that 25.2% of candidates to office in 1999 owned at least part of a business using a survey from nine regions. Looking only at candidates who won office, the numbers increase even more markedly, with upwards of 75%

[19]Kommersant'. September 16, 2011"Businessmen in Big Politics". http://www.kommersant.ru/doc/1774330 (accessed February 9, 2015)

[20]Myers, Steven Lee. December 2, 2003 "Big Business Plays Largest Role in Current Russian Vote." *New York Times* (accessed February 26, 2016)

[21]Mereu, Francesca. November 11, 2003 "Business Will Have Big Voice in Duma". *Moscow Times*. http://www.themoscowtimes.com/sitemap/free/2003/11/article/business-will-have-big-voice-in-duma/234678.html (accessed February 26, 2016)

[22]Myers, Steven Lee. December 2, 2003 "Big Business Plays Largest Role in Current Russian Vote." *New York Times* (accessed February 26, 2016)

of deputies in certain regional legislatures having business interests (Rastorguyev 2012; Sakaeva 2012).[23] Businesspeople do not just seek places in legislative bodies; they are well-represented in the executive branch at both the regional and federal levels. Gehlbach, Sonin, and Zhuravskaya (2010) document that from 1991-2005, although only 17 out of 247 governors had a business background, over half of gubernatorial elections had at least one businessperson run for office. In their study of the characteristics of the Russian national elite, Kryshtanovskaya and White (2005) find that businesspeople made up roughly 10-15% of all individuals serving in key decision-making positions in Putin's first presidential administration and 20% of all government ministers.

Relational strategies are an important way for firms to influence politics in Russia, given systemic problems with the rule of law and impartial access to policymakers (Puffer and McCarthy 2011; Slinko, Yakovlev, and Zhuravskaya 2005). According to the banker Boris G. Fyodorov who also served as a deputy prime minister and ran for regional office, "there is not a single large company in Russia that is not involved in politics."[24] Other observers agree, remarking that "becoming a deputy is the most widespread form of participation in 'high-level politics' by representatives of business."[25] While the popular press paints Russia under President Vladimir Putin as an authoritarian society deprived of any real political competition, the reality on the ground is quite different. Legislative influence is seen as key to securing longterm business interests, with 30% of firms in a firm survey of 2011 responding that they prefer working with legislative officials if they choose to lobby at the

[23] Romanova, Lyudmila. November 11, 2006 "Revolution of the Governing" *Vedomosti Smart Money* http://www.vedomosti.ru/smartmoney/article/2006/11/07/1652 (accessed February 3, 2015)

[24] Myers, Steven Lee. December 2, 2003 "Big Business Plays Largest Role in Current Russian Vote." *New York Times* (accessed February 26, 2016)

[25] Sedlak, Alena. April 23, 2007 "Mandates for the Business Class" *Yuzhniy Reporter* http://reporter-ufo.ru/2221-mandaty-biznes-klassa.html (accessed February 14, 2015)

regional level (Reuter and Turovsky 2014). Elections to regional legislative office command substantial attention from both elites and voters, with large financial contributions being funneled from firms to candidates (Mironov and Zhuravskaya 2015). Moreover, important variation in democratic development, resource wealth, and economic activity exists across the many Russian regions (Bruno, Bytchkova, and Estrin 2013). This subnational variation in Russia improves our ability to generalize findings to other settings where conflicts of interest have also been found between politicians and bureaucrats (Acemoglu et al. 2013), while allowing us to hold constant macroeconomic factors that might imperil a cross-national study. Russia in many ways is a typical middle-income country (Shleifer and Treisman 2014), experiencing the same challenges pertaining to corruption and conflicts of interest witnessed in similar countries around the world.

Next, regional politicians in Russia are not prevented from engaging in outside employment while in office nor are they conferred immunity from prosecution, two potential confounders which might imperil our ability to squarely connect candidacy to firm dynamics.[26] There was simply no law at the regional level during the period under study which banned businesspeople from running for office. A recent study on restrictions on the entry of public servants into legislatures suggested that Russia is perhaps more similar to the rest of the world on this account; the number of cases was very few where laws have been passed to prevent businesspeople from running (Braendle and Stutzer 2013). For example, in France and Italy, only managers of former state or of firms that sell to the state are not allowed to contest elections. Members of parliament can continue to serve on the board of directors in Germany, Switzerland, and the United Kingdom, among others (Gagliarducci, Nannicini, and Naticchioni 2010), while in Georgia and Serbia they must give up business

[26]MediaKorSet. February 10, 2009 "Judge Decided that Deputies Possess Enough Immunity" http://www.mkset.ru/news/chronograph/11273/ (accessed February 2, 2015)

managerial duties while in office. To be clear, at the national level in Russia (the State Duma), businessperson candidacy is outlawed and deputies are granted immunity. Oversight committees regularly investigate the business ties of Duma MPs, with egregious abuse of office leading to reprimands, exclusions, and even jail time. After winning a very uncompetitive auction for 7.5 billion rubles ($250 million) to build a 19 kilometer long road, State Duma Deputy Alexei Knyshov was stripped of his mandate in late 2014. Knyshov was the only member of United Russia among the eight deputies investigated for continuing to be involved in their firms while in federal office.[27] The majority of investigations of overlapping private and public sector activity at the national-level are instead directed at members of opposition parties who have publicly spoken out against the regime. One prominent example is Gennady Gudkov, a high-profile member of "a nascent protest flank inside the Russian Duma" from the Just Russia party, who was expelled from that body for making money from a construction supply company while in office.[28]

At the regional level, the lack of parliamentary immunity does not mean that deputies are subject to the same judicial scrutiny as average members of the Russian public. Several respondents remarked in interviews that winning a deputy mandate in a regional legislature raises the costs of a prosecution of an economic crime since a defendant sitting in office can easily construe the accusations as indicative of politically charged persecution.[29] However, a seat in a legislative body may not provide complete protection for businesspeople suspected of breaking the law or crossing their partners. In early 2013, construction tycoon and member of the Irkutsk

[27]TASS Russian Press Review, "The United Russia Businessman was Stripped of a Deputy Mandate" http://tass.ru/en/russianpress/684210. (accessed February 9, 2015)

[28]J.Y. September 17, 2012 "Why Gennady Gudkov was Expelled From the Duma." *The Economist: Eastern Approaches* http://www.economist.com/blogs/easternapproaches/2012/09/russian-politics (accessed March 8, 2016)

[29]Interview with Yakov Pappe, Professor of Economics, Higher School of Economics, Moscow, Russia. March 15, 2013; interview with Sergey Shpagin, professor, Tomsk State University. Tomsk, Russia. June 9, 2014

City Duma Mikhail Pakhomov was found murdered inside a rusted metal barrel filled with concrete. Even Deputy Pakhmonov's affiliation with the ruling United Russia was insufficient to save him being "tortured and killed over an outstanding $80 million loan."[30] Running for office may help some businesspeople hide from prosecution, but the absence of any official guarantee decreases the importance of this motivation.

Lastly, federal regulations in Russia require firms to submit full registration, management and annual financial data to state statistical agencies. Company information is widely available to researchers and covers the time period beginning in 1998 and running to present day (for additional details on the data, please see the Data Appendix). This requirement paired with the fact that the Russian Central Election Commission standardizes and consolidates all regional electoral results helps remedy the problem of identifying regional electoral candidates' business affiliations. Data availability in Russia provides the unique opportunity to study political connections on a scale unavailable to researchers using surveys or data from publicly traded companies.

1.3 Contributions to the Literature

By exploring the determinants and consequences of an important type of corporate political strategy, businessperson candidacy, this dissertation makes contributions to understanding several questions within political science, economics, and management. First, this study relates to work on how companies articulate their interests in politics, including why certain strategies are adopted in order to achieve policy goals. Given the variety of tactics available, businesses must navigate a series of trade-offs between allocating resources to lobbying or campaign contributions or to develop-

[30] Roth, Andrew. February 18, 2013 "Russian Legislator?s Body Is Found in a Barrel Filled With Concrete". *New York Times* (accessed February 15, 2015)

ing direct political connections (Hillman, Keim, and Schuler 2004; Lux, Crook, and Woehr 2011). The argument developed in Chapter 3 anchors the trade-off within a credible commitment problem, whereby politician shirking undermines *quid pro quo* transactions with interest groups (Großer, Reuben, and Tymula 2013). Firms choose their corporate political activities based on the perceived trustworthiness of politicians and political parties. When professional politicians fail to properly represent constituents and interest groups, their hold on elected office is vulnerable to direct challenges from these spurned actors. This reading of candidacy sheds light on the recent rise of outsider presidential candidates such as Donald Trump in the United States. Broken campaign promises can lead to upheaval among the type of individuals that contest elections.

This argument differs from existing work on the phenomenon by Gehlbach, Sonin, and Zhuravskaya (2010), who also study businesspeople running for office in post-Soviet Russia, by emphasizing the relationship between firms and politicians over that between firms and voters. Firms are concerned that their rivals will beat them into office and close the door to political influence sought through other means. Businessperson candidacy is a prime example of a 'mimetic' strategy whereby competing firms copy each another's approach to political activity (Lawton, McGuire, and Rajwani 2013; John et al. 2015). However, the more companies that adopt businessperson candidacy as a nonmarket strategy, the less each individually gains from this political investment. Stronger economic rivalry, rather than increased political competition or empowered accountability mechanisms, results in less rent-seeking by politically connected firms. Strengthening state institutions to prevent excessive industry concentration could reduce the appeal of directly seeking office for firms, as would public service reform to enforce transparency in public procurement and regulation. I thereby present new evidence about how structural and institutional factors impact the value of corporate political activity, improving our understanding of the relationship between democratization and corruption (Treisman 2007; Faccio 2006; Li, Poppo, and Zhou 2008; Fisman 2001; Siegel 2007).

Even with an abundance of scholarship estimating the returns on political connections for firms (Khwaja and Mian 2005; Boubakri et al. 2012; Hillman, Keim, and Schuler 2004; Goldman, Rocholl, and So 2013), we also know comparatively less about which firms expend resources to develop them and how they manage to do so. Running candidates for political office serves as an alternative mechanism to building insider political capital and is potentially available to all firms in a polity where elections are held. Political ties are allocated not solely through bribes or backdoor dealings, but out in the open as determined by a voting body. Businessperson candidacy in many respects democratizes how firms acquire political connections. The flip-side to this competition for access is that politicians who remain firm directors while in office may have many more instruments at their disposals to unlock financial benefits for their companies. It remains an open question whether the method by which political ties are built affects their values for firms. Lastly in Chapter 6, I adopt an identification strategy that goes beyond matching and simple regression analysis to estimate the causal effect of connections on firm value and behavior. In that regard, it answers a call in several fields to use natural experiments to dig into the mechanisms by which political connections actually change firm outcomes, instead of simple presenting cross-sectional comparisons (Acemoglu et al. 2013; Fisman 2001; Hillman and Hitt 1999; Feinberg, Hill, and Darendeli 2015). Here I offer the first empirical analysis of the value of this novel strategy.

My research also speaks to several ongoing debates within the study of non-democratic regimes. First, by looking at the economic underpinnings of autocracy, this project illuminates the conditions under which political stability is alternately consolidated or undermined. In recent years, scholars have devoted considerable attention to formal political institutions in autocratic regimes, putting forth a set of arguments that legislatures and elections, for example, help buttress nondemocratic rule (Gandhi 2008; Svolik 2012; Magaloni 2006; Gehlbach and Keefer 2012). To date, much work on hybrid and non-democratic regimes has predominantly focused on why regimes adopt nominally democratic institutions to their own benefit (Brancati 2014), with comparatively less done on why elites participate in these institutions. My work builds on this body of work but hones in on the individuals actually populating these 'black box' institutions: their motivations, payoffs, and governing capabilities. The project parallels Arriola (2012), who lays out a compelling argument that businesspeople rescinding their support for an autocratic regime is a strong predictor of its collapse. My project poses the opposite but related question: why do economic elites join up and legitimate political institutions, and under what conditions do they remove their support. One key reason is the financial benefits that come from entering these institutions; I provide evidence of the causal effect of democratic institutions such as elections and parliaments in distributing rents among elites from across the political spectrum (Blaydes 2011; Gandhi and Lust-Okar 2009). This improves our understanding of how dominant parties both retain the loyalty of their members as well as co-opt other parties within society to increase their hold on power (Reuter and Turovsky 2014; Reuter and Robertson 2015). By utilizing the natural experiment of close elections, I show that institutions in competitive authoritarian regimes are not epiphenomenal to larger societal dynamics (Pepinsky 2014), but instead can have independent effects on the behavior of elites and interest groups.

My project lastly opens up an important research agenda concerning the ways economic interests are represented and aggregated in policymaking. For all the attention paid to activities such as lobbying and campaign contributions, business-people directly occupying elected office may have more profound effects on the types of policies passed in countries worldwide. I show that politicians with concurrent business interests carry a clear conflict of interest (DellaVigna et al. 2013), since their elected authority offers opportunities to enact discretionary policies that direct public monies and rents to their private firms. This variant of rent-seeking behavior may lead to more serious distortions for overall economic development than simply using public office to increase personal wealth (Querubin and Snyder Jr 2011; Fisman, Schulz, and Vig 2012; Eggers and Hainmueller 2009). The takeover of legislatures by powerful firms (in other words, 'state capture') may have enormous social costs, as winning firms reap rewards not based on their market success or productivity but on their ability to win elections (Hellman, Jones, and Kaufmann 2003). As such, elections function less as an opportunity for citizens to express their voice, but instead directly determine specific economic winners and losers. We simply do not know the extent of the impact active businesspeople in legislatures can have on wider economic and political processes in a country. My research takes the first step in showing how individual politicians capture these institutions for their own ends (Carpenter and Moss 2013) and introduces an empirical strategy for studying what happens when firms become intimately involved in the making of laws and regulations.

1.4 Plan of Work

This dissertation unfolds as follows. In Chapter 2, I outline the various ways firms can acquire political influence around the world in order to place businessperson candidacy into the wider world of corporate political strategy. I also critique the existing literature on this type of candidacy, demonstrating that the focus on electoral quality and democratization is misplaced. Next, in Chapter 3, I develop my theoretical argument predicting the conditions under which firms will lose confidence in the ability of politicians to uphold their promises and thus run directors themselves into elected office. I test the set of hypotheses using a multi-level modeling framework supplemented by qualitative evidence. Chapter 4 hones in on two main decisions businesspeople must make after deciding to become candidates: which ballot to run on and which party, if any, to join. In Chapter 5, I present empirical analysis using a regression discontinuity design of the benefits that firms receive from having their director occupy a seat in a regional legislature. Chapter 6 summarizes the main findings of the dissertation and advances two extensions for the work. The first addresses the question of whether businesspeople make better policy while in office, while the second extends the analysis to developing and developed democracies.

Chapter **2**

Chapter 2: Businesspeople in Politics

The political behavior of businesspeople and firms has been a focus for scholars for decades. Corporate political activity can dramatically affect the formation of economic policies, from helping determine the distribution of rents to shaping development and growth. The survival of governments in part depends on consistent buy-in from domestic economic actors through their regular payment of taxes, campaign contributions and investment activities (Lindblom 1977). Political leaders often go to great lengths to court this essential support from businesspeople. Regimes that have been unable to successfully establish relationships with autonomous business groups may be especially vulnerable to instability and even collapse (Dahl 1966; Greene 2010; Levitsky and Way 2010; Huntington 1968; Arriola 2012).

However, work on corporate political activity has largely overlooked one prominent and especially effective way for businesspeople to influence politics: running for political office.[1] Below I present an overview of the current literature from several fields of social science about how and why businesspeople become involved in politics. I then argue that becoming a candidate for political office is a distinct type of nonmarket strategy, with important differences from other activities, such

[1] An important exception is Gehlbach, Sonin, and Zhuravskaya (2010).

as lobbying or making campaign contributions.[2] The decision of economic elites to adopt the direct strategy of holding office merits special theoretical attention which accounts for strategic interaction and competition between firms. Such a contribution is especially warranted considering the literature's clear orientation to the U.S. context at the expense of scrutinizing corporate political strategies widely in use in other countries.

The main claim put forward in this chapter is that the emphasis placed on democratic institutions to explain variation in the incidence of businessperson candidacy fails to capture the central problem that firms face. When making decisions about the choice of corporate political strategy, businesspeople are not concerned with the ability of voters to potentially punish politicians for representing special interests. Instead, I argue that businesspeople decide to run for political office when conventional strategies designed to influence politicians are ineffective, such when opportunities are ripe for politicians to defect from informal agreements made with firms. In doing so, I recast the puzzle of businessperson candidacy within a principal-agent framework, where the principal is the firm owner and the agent is the politician tasked with securing policy in favor of firm interests. Lastly, firms running candidates for office expect a return on their political investment, given the considerable resources required to win elections. However, the literature has failed to find evidence that in general business contributions to politicians help buy influence. I review recent research on firm-level returns from political strategies, drawing attention to current obstacles that have hindered attempts to identify payoffs.

[2]Here I draw from Baron (1995, pp. 47) in defining nonmarket strategy as a "concerted pattern of actions taken in the nonmarket environment to create value by improving (a firm's) *overall* performance," where nonmarket environment signifies "those interactions between the firm and individuals, interest groups, government entities, and the public that are intermediated not by markets but by public and private institutions."

2.1 The Determinants of Corporate Political Activity

When and why do businesspeople become involved in politics? Investing in political activities, like any investment decision, requires that a firm gauge the probability that this course of action will pay off. The dominant approach in the literature is that firms are profit-maximizers. Access to policy and the distribution of government resources can help improve a firm's economic prospects (Coen, Grant, and Wilson 2012). In return, through their control over a number of levers, policymakers demand contributions from business that increase their chances of remaining in office, such as assistance winning re-election, information about policy needs, and contributions towards the provision of public goods (Hillman and Hitt 1999). Because both sides–politicians and firms–must rely on the other to achieve their desired ends, a relationship of exchange develops by which benefits are traded in the aim of mutual profitability and advantage (Choi and Thum 2009; Frye 2002). Though recent work suggests that managers of firms sometimes use corporate political activity to achieve their own personal goals in politics (Aggarwal, Meschke, and Wang 2012), most work assumes that nonmarket strategies are aimed at increasing shareholder value (Mathur and Singh 2011). I present the current explanations for the factors motivating corporate political activity (CPA) concisely in Table 2.1, grouping them into firm-level, industry-level, and institutional-level antecedents, before then examining them in greater detail in the text below. The majority of work in this area has been done on the American context, but I highlight several works that adopt either cross-national or individual case approaches in countries outside the U.S.

Table 2.1: Antecedents of Corporate Political Activity

Firm Level Antecedents	Mechanisms
Firm Size	- Greater financial resources help cover costs of individual access and solve collective action problems (Hillman, Keim, and Schuler 2004; Olson 1965) - More employees means more votes to be mobilized (Hart 2001; Frye, Reuter, and Szakonyi 2014) - Large firms have better ability to capture rents from legislation and policy concessions (Hillman, Keim, and Schuler 2004)
Recent Performance	- Financial difficulties lower opportunity costs of lobbying the government (Damania 2002) - Weak financial health incentivizes strategy of achieving lower taxes instead of improving productive ability (Adelino and Dinc 2014) - Declining industries are more able to achieve trade protection through lobbying (Hillman 1982; Brainard and Verdier 1997)
Dependence on Government	- Heavily regulated firms and those that sell to the state are more likely to require political influence (Grier, Munger, and Roberts 1994; Kim 2008; Hart 2001; Ozer and Lee 2009)
Internal Structure / Ownership	- Strong shareholder rights can prevent lobbying if it is deemed an inefficient use of resources (Kim 2008; Hansen and Mitchell 2000) - Managers make political expenditures based on personal preferences, not the needs of shareholder value maximization (Aggarwal, Meschke, and Wang 2012)
Industry Level Antecedents	
Industrial Concentration	- Fewer number of firms in an industry helps solve coordination and free-riding problems to lobby for sectoral interests (Pittman 1977; Schuler, Rehbein, and Cramer 2002; Grier, Munger, and Roberts 1994) - But mixed results, non-findings, and conditional effects abound (Hansen, Mitchell, and Drope 2004; Barber, Pierskalla, and Weschle 2014)
Sectoral Characteristics	- Asset immobility may cause frictions between firms and governments, requiring lobbying (Barber, Pierskalla, and Weschle 2014) - The level of capital mobility may determine whether firms organize at the sectoral level or according to factor endowments (Hiscox 2001)
Institutional Antecedents	
Weakly Institutionalized Polities	- Fewer checks and balances and greater corruption makes political action critical for firms (Du and Girma 2010; Chong and Gradstein 2009) - Stronger democratic accountability affects type of political adopted (Gehlbach, Sonin, and Zhuravskaya 2010; Faccio 2006)
Level of Political Competition	- Politically engaged competitors induce mimetic strategies by firms (Hansen and Mitchell 2000; Hansen, Mitchell, and Drope 2004)
Greater Political Diversity	- More veto points means more opportunities for influence (Macher and Mayo 2015) - Large firms lose with more veto points, small firms gain; large firms lose with more industrial competition, small firms gain (Macher and Mayo 2015)

Firm-Level Determinants

First, firm-level characteristics are critical to explaining the binary choice to engage in corporate political strategies. As we know from work on the political behavior of U.S. firms, indeed 'business is not an interest group' (Hart 2004). Firms rarely unite around any issues or around specific political strategies, fragmenting across sector and/or factors depending on their specific characteristics (Hiscox 2004; Gimpel, Lee, and Parrott 2012; Hillman, Keim, and Schuler 2004). From a rational choice perspective, firms get involved in politics because of the perceived payoffs. At the level of the firm, declining economic performance can spur interest in looking towards nonmarket solutions to problems with profitability. Financial difficulties can also incentivize CPA by lowering the opportunity costs of attempting to influence policymakers (Damania 2002; Kim 2008).

Recent work has also identified state dependence as a motivating factor for businesspeople to engage in wider arrays of political activity (Grier, Munger, and Roberts 1994; Pittman 1977). Firms more reliant on the government for subsidies, possessing more specific assets, or more vulnerable to expropriation see cooperation with the state as an opportunity to improve or at least maintain their economic performance (Frye, Reuter, and Szakonyi 2014). Minimizing regulatory burden can be an effective way to lower costs and increase profitability (Hart 2001). These findings suggest that a given firm's demand for political privileges is a function of their specific relationship with the government (Du and Girma 2010; Weymouth 2012).

However, corporate political activity can be quite costly and not all firms can afford to pursue their interests in the nonmarket arena. Accordingly, researchers have found that larger firms are more likely to go political, enjoying greater resources to expend to persuade policymakers to bestow privileges (Hillman, Keim, and Schuler 2004; Hart 2001). Their size may be attractive to politicians vying for office: courting larger firms with substantial finances and workforces allows these leaders to take advantage of economies of scale in building coalitions of support (Hart 2001).

It should be noted however that current explanations of business political behavior in countries outside the United States tend to assume more homogenous firm preferences. In difficult business climates, specific differences between firms are viewed as less consequential, as all businesspeople are assumed to be interested in economic liberalization and policies aimed at improving the overall business environment (Arriola 2012). This line of research argues that suboptimal relations with the government not only motivate a given firm to adopt political strategies, but also ease the challenges of organizing cooperation between heterogeneous firms of a given sector or geographical region (Barber, Pierskalla, and Weschle 2014; Junisbai 2012). More general theories about the role of economic actors in politics have been somewhat vague about which individual firms are represented. Therefore, the type of firms most likely to be in demand by governments may be those able to make (or withhold) valuable contributions to regime stability, but little guidance is given about what type of firms actually make up this support base.

Industry-Level Determinants

At the industry-level, the important antecedent for explaining firm preferences for corporate political activity has been industrial concentration. This approach assumes first that the primary means of influencing politics, lobbying, is too costly and ineffective for the average firm to undertake individually. Associations or other organizations are necessary to pool resources and interests for greater political impact. High levels of economic concentration help mitigate free-rider problems, since it is easier to monitor and punish among a small number of firms when some are not fully contributing to collective action efforts (Olson 1965; Ozer and Lee 2009) and larger firms are more likely pay the costs of organizing (Pittman 1977). Greater concentration also increases the likelihood of cohesion between firms and then their joint mobilization around shared political goals (Frieden 1991). Cooperation is facilitated as a smaller number of actors have better opportunities to organize around their interests, develop consensus and build a common political culture (Mizruchi and Koenig 1988).

Similarly, high levels of economic concentration may also facilitate improved exchange between suppliers of policy (i.e. governments) and those who demand it (interest groups, such as firms). Because firms in concentrated industries have fewer problems negotiating collective political positions and framing their shared interests, policymakers may see an opportunity to cooperate more fluidly with this focused and organized set of interests (Salamon and Siegfried 1977; Stoner-Weiss 1997). The level of economic concentration has also been linked to specific political strategies of firms, such as mobilizing workers to vote, by affecting the structure of local labor markets (Frye, Reuter, and Szakonyi 2014; Mares and Zhu 2015). When labor mobility is low, employers can threaten workers with layoffs if they don't accede to their demands to vote for preferred candidates and parties.

Explanations emphasizing the importance of economic concentration for solving collective action problems are open to a number of criticisms. First, the empirical evidence in support of the industrial concentration theory has also been decidedly mixed, with a number of studies identifying a direct relationship (Grier, Munger, and Roberts 1994; Pittman 1977) going up against considerable research finding a null result (Mizruchi and Koenig 1988; Mitchell, Hansen, and Jepsen 1997; Barber, Pierskalla, and Weschle 2014; Hansen, Mitchell, and Drope 2004). High levels of concentration (viewed as an indicator of overall sectoral competition) may also work against cooperation within associational structures. Where competition within a given sector is low, profit margins are higher. Firms then see increased returns for their own profitability by lobbying their interests individually (Bombardini and Trebbi 2012).

Recent work has also highlighted several empirical shortcomings in existing approaches to the relationship between concentration and lobbying: a lack of analysis done beyond industrialized democracies, an overemphasis on publicly available data specific to the U.S. context (the 'streetlight effect' described in Hart (2004)), and little if any attention to the factors increasing the attractiveness of an individual approach to strategizing (Barber, Pierskalla, and Weschle 2014). Moving beyond these disagreements requires taking into consideration the institutional and macrolevel factors beyond a specific industry that affect firms' demand for and ability to implement political strategies.

Institutional Determinants

Finally, institutional factors can change the calculus for an individual firm and its decision to take political action. On the one hand, scholars have argued that weak market and institutional environments make participation in politics essential to securing favorable business outcomes, such as developing ties with officials or influencing legislation (Li, Meng, and Zhang 2006; Chen et al. 2011; Du and Girma 2010; Gehlbach, Sonin, and Zhuravskaya 2010). When businesses face regular obstacles, such as weak rule of law or insecure property rights, political action may become critical to secure economic outcomes. For example, in China, entrepreneurs appear to more readily join pro-regime institutions in the presence of market or state failure (Li, Meng, and Zhang 2006). Policy environments with fewer veto players and weaker checks and balances can also be more unpredictable and unstable. Firms may look towards lobbying to help navigate uncertain regulatory spheres and prevent abrupt political shifts from hurting their bottom line (Weymouth 2012). In fluid and risky business climates, corporate political activity can help give firms an extra edge against their competitors.

On the other hand, the return on investing in political activity may be greater in democracies. An abundance of veto players within a polity may open up more political actors for firms to attempt to curry influence with (Macher and Mayo 2015). In developed democracies, greater political competition can also incentivize firms to enter the fray (Bonardi, Hillman, and Keim 2005), especially when other firms in a sector have become active in support of a rival political group (Hansen and Mitchell 2000). However, cross-national statistical evidence has also shown that political institutions may have no effect (positive or negative) on firms' propensity to take political action (Weymouth 2012). Overall, scholarship on nonmarket strategies has remain hobbled by relatively thin accounts of the effect of institutions on firm performance and management behavior.

2.2 Enlarging the Menu of Political Strategies

Once a firm decides that expending resources on political action is necessary, the next choice involves the specific strategy to adopt in order to achieve influence. Schneider (2012) has written of this menu of options through the framework of a 'political investment portfolio.' Businesses rationally select political strategies from an array of options using cost-benefit analysis, calculating the overall return of each political route for the firm's balance sheet. But the costs and benefits of the various strategies are not fixed. The most attractive political strategy for any given firm can depend on a variety of factors, ranging from specific firm characteristics and opportunities in the market to the broader institutional environment. Firms can also mix strategies to increase the probability that one or another course of action achieves the desired return. I begin with an overview of the options available to firms typically studied in the literature and then introduce businessperson candidacy as an often overlooked nonmarket strategy. I then discuss the factors affecting each strategy's relative costs and benefits.

The extant literature on corporate political strategies, has largely focused on two different types of corporate political strategies viewed as the most dominant in the 'portfolio': lobbying and making campaign contributions (Coen, Grant, and Wilson 2012). Both lobbying and campaign contributions are examples of what I term indirect corporate political strategies. Firms contribute 'information, money, and/or votes' to politicians in exchange for access and influence (Hillman and Hitt 1999). As a result, the politician becomes an intermediary and advocates on the firm's behalf to achieve its policy goals. However, politicians receive contributions and experience lobbying efforts from numerous interest groups, all fighting to receive a final word on policy. Though larger contributions are theoretically presumed to increase the probability that a politician will implement the 'bought' policy (Grossman and Helpman 1994), indirect strategies provide no formal guarantee that the exchange will take place. Such indirect strategies can also be both legal and illegal in nature, depending on the laws governing activism in a specific country. For example, a fine line often exists between lobbying officials and bribing them, with scholars such as Harstad and Svensson (2011) viewing them as substitutable strategies made contingent on the level of development in a country. Bribery still depends on developing an exchange-based relationship with a political actor. Below I focus only on legal indirect strategies, but with full recognition that firms can step outside the bounds of the law to assert their interests.

Indirect Strategies: Campaign Contributions

The transaction-based approach to taking political action first takes the form of firms making campaign contributions. Firms offer donations to candidates and parties prior to elections in the hope of several types of receiving a return on their investment once the targeted political office wins elected office. Contributions can help buy policy itself through a *quid pro quo*, as politicians can offer preferential access to finance or eased regulatory burdens (McMenamin 2012; Claessens, Feijen, and Laeven 2008; Cooper, Gulen, and Ovtchinnikov 2010). Firms also donate money to ensure that their constituent voice is clearly heard by politicians, even if no direct benefits are returned, as well as to hedge against any potential incursions into their business activities on the part of government. In deciding on whom to court, businesses tend to focus on stronger politicians, such as incumbents, who have a higher likelihood of victory and thus bestow a better guarantee that contributions are a safe bet on getting political access (Lux, Crook, and Woehr 2011; Arriola 2012). Contributions are in large part made by businesses directly to the electoral campaigns of politicians, either through simple payments or in the U.S. through dedicated political action committees set up and run by firms.

Candidates and parties directly benefit from this campaign support (Snyder Jr 1990; Grier, Munger, and Roberts 1994). In developing countries, these contributions can be critical for nascent political parties to achieve electoral success; many domestic firms hedge their bets across numerous parties during competitive elections in order to ensure they gain future influence (Arriola 2013). Beyond monetary contributions, supporting candidates can also be accomplished by mobilizing the electorate to vote in favor of candidates and parties deemed to be valuable for firm interests (Frye, Reuter, and Szakonyi 2014; Mares and Zhu 2015). Parties then receive contributions as direct votes. Though worker mobilization is difficult to measure, in many countries, high-quality data about financial campaign contributions is available. Laws either require firms to legally document their contributions or firm surveys can capture the role that businesses play in the run-up to elections.

Indirect Strategies: Lobbying

For the majority of businesses, lobbying the government, rather than providing electoral assistance to politicians, emerges as the optimal strategy to gain political influence. In fact, studies of the American political system caution scholars not to focus on the easy availability of data on campaign contributions by claiming that lobbying dominates the CPA landscape, both in terms of money and effectiveness (Milyo, Primo, and Groseclose 2000). Firms can band together with a unified voice in order to pool resources and utilize a team of full-time professionals (such as trade associations and PACs) to represent their interests (Coen, Grant, and Wilson 2012). Alternately firms have had notable success achieving policy aims by lobbying the government individually (Gordon and Hafer 2007), for example by pressing for lower taxes (Richter, Samphantharak, and Timmons 2009).

Whereas campaign contributions go directly to politicians, lobbying involves the use of a set of intermediaries who represent firm interests and then coordinate with relevant public officials. The type and structure of the lobbying process often reflects who is being represented (an individual firm or a trade association) as well as the issue or objective at hand (developing long-term relationships to shape policy or directing lobbyists to focus on a single issue). Firms then pay lobbyists to persuade politicians to negotiate and bargain in the political arena on their behalf, even further elongating the principal-agent chain. The key point is that lobbying does not guarantee that politicians will follow through after receiving overtures from a lobbyist hired by a firm: politicians can still decide not to represent the interests of financier.

Like campaign contributions, lobbying is a decision made by directors and managers largely without influence from outside actors. As such, the decision-making process of these executives lends itself well to theoretical models at hand that place corporate activity as another nonmarket strategy accessible to firms. Investigating the reasons why firms engage lobbying is also made easier by widely available data. In many countries, including the United States, firms publicly file records about their lobbying activities with government authorities. Such documentation outlines both overall expenditures and contacts made with state officials. Otherwise, firm surveys have often been used to measure which firms choose to lobby, the types of lobbying activities that are performed, and the relative successes or influence gained.

Direct Strategies: Developing Political Connections

Besides lobbying and making campaign contributions, firms also have a range of options that forgo the use of political intermediaries. I term these as part of the direct approach to corporate political strategy. Direct political strategies essentially involve current and former politicians and state officials working as employees of the firm. This alignment of incentives (the politician now benefits monetarily when the firm's performance improves) may help deflect other competing influences for the politician's authority. This contrasts with the situation under lobbying and campaign contributions where state officials regularly receive offers from any number of interest groups and are not beholden to any single entity to carry out their promises. Direct strategies therefore more closely bind the politician to a firm and provider a stronger guarantee that a firm's interest will be represented.

Political connections are developed directly between the businesspeople and the policymaker of interest. Exploiting such ties involves type of relationship-building that can be especially effective at receiving policy benefits (Faccio 2006; Khwaja and Mian 2005; Desai and Olofsgard 2008; Carretta et al. 2012; Li et al. 2008). Common approaches to nurturing political connections include the placement of current or former politicians on the board of directors or the gifting of shares to such officials to better align their interests with the firm. These officials can then utilize their political experience to act as *de facto* lobbyists for the firm, gaining them privileged access to decision-making. Hiring politicians is a unique strategy, insofar as it brings an outsider into the firm in order to achieve political objectives. Similarly, firms can participate in the 'revolving door' phenomenon, whereby ex-government employees (i.e. unelected officials such as legislative staffers) join private firms who capitalize on their insider knowledge and experience as regulators (Makkai and Braithwaite 1992; Gormley Jr 1979)

Examining how and why firms develop these connections is much more difficult. First, political ties are often shadowy and hard to identify (Fisman 2001), complicating attempts to understand the calculus behind the decision to adopt the direct strategy. Scholars have tended to focus on measuring the benefits accrued to politically connected firms, while sidestepping the issue of how the connections were developed in the first place. Are existing politicians sought out and invited to join firm governing bodies? Or alternately, are firms captured by state officials, an occurrence increasingly common in weakly institutionalized environments? As political institutions strengthen their role in directing economic affairs, efforts have been increasingly made to bind businesspeople to the regime. As an example, beginning in the late 1990s, the Chinese government has embarked on a comprehensive strategy of inviting entrepreneurs to join the Chinese Communist Party; the connected firms then prosper from newfound political ties (Han 2007; Dickson 2007).

Therefore, in contrast to scholarship on indirect strategies, our understanding of the reasons behind firms developing political connections is undoubtedly incomplete. Assuming that the presence of political ties within a firm is the result of a conscientious decision by firm directors to improve their performance overlooks the role of political actors in creating their own inroads into economic activity. Existing work mainly assumes the exogenous distribution of political ties across firms without examining their origins.

How Firms Choose Between the Strategies

We know much about why firms engage in CPA, but considerably less about which strategies they choose once the decision has been made.[3] Because of difficulties identifying the wide variety of political investment options available to firms listed

[3]See Lux, Crook, and Woehr (2011), but exceptions include Barnett (2006) and Gehlbach, Sonin, and Zhuravskaya (2010), discussed below.

above, we have little leverage to develop a comprehensive picture of a given firm's array of political investments (Schneider 2012). Work on a firm's political activity has been confined to the determinants of a single strategy faced by a single sector, overlooking the potential trade-offs between the strategies (Hillman, Keim, and Schuler 2004). In all cases, corporate political activity is viewed as a dichotomous choice, under the assumption that all strategies are alike in their costs and benefits. The trend in all the literatures related to CPA has also been to aggregate and focus solely on the indirect political strategies of lobbying and campaign contributions (Lux, Crook, and Woehr 2011). This domination is largely due to an overemphasis on the United States over the last 30 years. The vast and consistent growth of business participation in politics in the U.S. beginning in the 1970s also coincided with strict campaign finance laws and related regulations enforcing transparency about both business lobbying and campaign contributions (Lawton, McGuire, and Rajwani 2013). This unmatched access to data from a vibrant pluralist country has dramatically sapped attention away from both corporate political activity in other developing and developed countries and from examinations of more direct political strategies.

Arguing that firms may under certain conditions display a preference for one strategy or another should by no means negate the fact that firms combine political strategies according to their interests or business environment. None of the strategies outlined above are mutually exclusive. Multiple tactics can enable to cement comprehensive access to the political arena as well as cover a wide variety of policymakers (Schuler, Rehbein, and Cramer 2002; Hadani 2007). Moreover, desired legislation may require input and influence by firms at various points throughout the entire policy process, as firms may target strategies towards the requisite political actors. In the U.S., although the majority of firms employ both lobbyists and campaign contributions, those that adopt the mixed strategy allocate their money differently (Ansolabehere, Snyder Jr, and Ueda 2004). Identifying the conditions under which firms gravitate towards one or the other tactic improves our understanding both of the factors affecting cooperation, but also the type of potential returns firms accrue from their political investments.

2.3 Direct Strategies: Running for Political Office

One additional direct strategy has in large part eluded the attention of scholars: businesspeople running for political office. Besides inviting former and current politicians to management positions, firms can also send their own representatives directly into political institutions. Though appointments to executive positions indeed happen, an important and more widely available way of securing influence in government is to run for elected office to both executive and legislative positions. In this scenario, the firm director (CEO), trusted manager, or member of the board of directors opts to seek political office in an attempt to acquire influence over policy.[4]

The choice to send representatives from the firm directly into political office differs markedly from other indirect and direct strategies discussed above. First and foremost, when businesspeople personally occupy political positions, they enjoy unparalleled access to policy decisions. Well-positioned businessperson deputies can draft laws to benefit their businesses, while others head committees that oversee sectoral regulations and laws.[5] Legislators also run in powerful circles, opening up new social opportunities and connections for an ambitious entrepreneur to expand his or her business.[6] For those businesses instead wanting to preserve the status

[4]This candidacy strategy differs from that of developing political connections as described above. In the former, the firm sends one of its own (usually the CEO or director) into politics, whereas in the latter the firm cultivates ties with existing politicians by inviting them to join the firm.

[5]Mereu, Francesca. November 11, 2003 "Business Will Have Big Voice in Duma". *Moscow Times*. http://www.themoscowtimes.com/sitemap/free/2003/11/article/business-will-have-big-voice-in-duma/234678.html (accessed February 26, 2016)

[6]Chernokoz, Olga. February 12, 2013 "Pochemu v Regionalynih Parlamentah Otkryto Sidit

quo, deputy status helps protect against legislation that "could raise their taxes, tie them in red tape, or threaten their property rights."[7] Winning office becomes part of an insurance policy to ensure that a business kingdom remains profitable.[8] In Russia, a deputy seat also opens doors to the government offices, particularly in the executive branch, where all important decisions affecting the economic life of the country are taken.[9] In an interview with the author, a current businessperson deputy from Tomsk claimed that bureaucrats are required to meet with deputies if they ask; if the event of non-compliance, these politicians can submit 'deputy requests' (*deputatskiye zaprosi*) that can force bureaucratic action in favor of their businesses.[10] Put succinctly, Roland Nash, chief strategist at Renaissance Capital, remarked that businessperson candidacy is "the most powerful form of lobbying."[11]

As a result, holding political office can help mitigate the principal-agent problem: when businesspeople become political actors themselves, they can act completely in the interests of the firm and not be concerned about problems of delegation to and the monitoring of intermediaries. Direct access to policymaking may allow a firm to better defend its own individual interests, instead of having to rely on trade associations that impose less substantial costs, but advocate sectoral (collective) needs. Once elected office is won, firms must still negotiate with other policymakers

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Bisnesmeni?" *Regioni Online* http://gosrf.ru/news/12430/&mediaId=11372 (accessed February 15, 2016)

[7]Bush, Jason. December 7, 2003 "Russia: Why Business Is Rushing Into Politics" *Bloomberg* http://www.bloomberg.com/bw/stories/2003-12-07/russia-why-business-is-rushing-into-politics (accessed February 14, 2015)

[8]Interview with Petr Panov, political scientist, Perm. October 3, 2013

[9]Chazan, Guy. September 10, 2000 "Votes for Sale in the Duma, says Russian Banker". *Telegraph* http://www.telegraph.co.uk/news/worldnews/europe/russia/1354883/Votes-for-sale-in-the-Duma-says-Russian-banker.html (accessed on February 9, 2015)

[10]Interview with Vasiliy Semkin, businessman and deputy of Tomsk Regional Duma, Tomsk, Russia. June 11, 2014

[11]Mereu, Francesca. November 11, 2003 "Business Will Have Big Voice in Duma". *Moscow Times*. http://www.themoscowtimes.com/sitemap/free/2003/11/article/business-will-have-big-voice-in-duma/234678.html (accessed February 26, 2016)

to get their interests heard, but their concerns about the potential defection of policymakers are lessened.

The potentially huge advantages of winning a deputy seat do not come without costs. In fact, running for office may be the most resource-intensive and costly of all corporate political strategies available to firms. While lobbying and making campaign contributions can also run up huge tabs, becoming a politician requires a massive amount of time and money. In many countries, businesspeople often must finance electoral campaigns entirely on their own, without party support (Blaydes 2011; Lust 2009). Even in developed democracies, politicians must self-finance; a survey of candidates to national parliaments in eighteen countries found that 46% of all campaign expenditures were paid for using personal funds (CCS 2015). In Russia, one estimate put the cost of winning a seat in the Omsk Regional Duma at $80,000-150,000 in 2002, the majority of which went to paying for ads and mobilizing voters (Barsukova and Zvyagintsev 2006). Mironov and Zhuravskaya (2015) also examine shadow transfers around regional gubernatorial elections in Russia and find that firms transferred on average a total of $2.5 million to electoral campaigns at that level. Getting a place on a party list is not much more affordable: political parties can charge up to $8-10 million for a national-level and to 5-7 million rubles ($160,000-$200,000) for a local-level spot.[12] Even more importantly, interviews with several deputies uncovered that spending money is no guarantee of victory in competitive elections, and all campaign expenditures are non-refundable.[13] Acquiring a party brand can entail down-the-road membership commitment long after elections: candidates become dependent on parties for their political career and have few levers to refuse requests for continued donations throughout their term in office.

[12] Interview with Valeriy Otsipov, deputy of Tomsk Regional Duma, Tomsk, Russia. June 9, 2014

[13] Interview with Galina Nemsteva, deputy of Tomsk Regional Duma, Tomsk, Russia. June 10, 2014; Interview with Vasiliy Semkin, businessman and deputy of Tomsk Regional Duma, Tomsk, Russia. June 11, 2014

Lastly, electoral politics can be contentious and vicious. Losing at the polls could cause a hit to the reputation of the firms, especially if it tied itself to divisive or controversial stances in order to get elected. Large firms may rely on mobilizing their employees to get enough votes to get elected, which may result in morale and productivity problems given the overt politicization of the workplace.

Once in office, a businessperson deputy must allocate some portion of his or her time to political responsibilities instead of just those related to firm operations (Geys and Mause 2011). During re-election campaigns, voters will evaluate politicians not according to firm performance (like shareholders would, for example), but on their ability to deliver public goods and direct political attention to their constituencies. One deputy admitted that "being a deputy and a businessman at the same time is not easy"; the amount of constituent requests for help, especially financial assistance, was a significant burden on his ability to run his firm.[14] Firms may also need to satisfy social obligations to their constituents, often times mandated by the government in exchange for preferential treatment in other areas. Businesspeople politicians make a range of decisions on policies wholly unrelated to the performance of their firm and far outside their areas of expertise. This diversion of time and resources from pure economic activities can easily surpass financial expenditures on lobbying or campaign contributions, making businessperson candidacy an especially resource-intensive strategy.

This trade-off between the benefits of unhindered access to policymaking and the significant costs required to win and hold elected office is at the heart of the complicated decision of whether a businessperson should run for office. The calculations behind a businessperson candidacy maps onto a decision framework comparable to that of other nonmarket strategies: businesspeople must decide whether directing

[14]Interview with Vasiliy Semkin, businessman and deputy of Tomsk Regional Duma, Tomsk, Russia. June 11, 2014

pursuing a spot in government surpasses going other routes to achieve influence, such as the indirect strategies of lobbying or campaign contributions. The next section reviews the existing literature on why some firms choose candidacy as their best option.

2.4 When do Businesspeople Run for Political Office?

Personal Characteristics of Office-Seekers

Individuals of all backgrounds choose to run for office for a number of reasons. Though businesspeople may be thinking about their firm's bottom line when considering candidacy, we cannot overlook the potential importance of other personal factors in affecting their political drive. Schlesinger (1966) described an individual's decision-making process of whether to run for office through the lens of rational choice. Personal characteristics clearly matter: candidates weigh the resources needed, the cost to their families, self-perceived qualifications, and attachment to various issues and ideology (Maestas et al. 2006; Fox and Lawless 2005, 2011). The perceived likelihood of victory can also affect the decision-making calculus, as determined by the availability of open seats, existing political competition, and the level of legislative professionalism (Schlesinger 1966; Stone and Maisel 2003).

Businesspeople are not immune to the general attractions of running for office. Successful businesspeople may be especially prone to self-aggrandizement and risk-seeking behavior. The achievement of wealth and status in the economic arena may lead individuals both to desire political authority and believe that their business experience has uniquely qualified them. Across a number of contexts, businessperson candidates emphasize their financial success and management prowess as potentially useful in fighting for constituent interests and building political coalitions. Citing a growing personal commitment to larger societal problems, candidacy is seen as a logical next step after achieving success (and growing bored) at the one's firm.[15] Other businesspeople view political office as a means to providing input on budget affairs or ensuring that the budget system works properly.[16] Politicians may also reap considerable individual financial benefits, both while in office and afterwards; the lure of additional personal earnings can loom large for an individual accustomed to prosperity (Eggers and Hainmueller 2009; Gagliarducci, Nannicini, and Naticchioni 2010). Such personal ambitions do matter for determining which individuals seek office (Maestas et al. 2006; Fox and Lawless 2011), but both the anecdotal and empirical evidence found in this dissertation suggests that economic, firm-based motivations appear to trump them.

Economic Motivations

Beyond personal considerations, businesspeople also evidently seek benefits for their own firms. Firms looking to improve their financial position through political options have several options to pursue. Although directly occupying office may offer the most access and influence, it also ranks as the most costly and potentially risky. Firms vary in availability of resources to pay these campaign costs and interest in political issues. Scholars have examined how political institutions affect the economic payoffs for firms with personal representatives in office. Institutions change the nature of corporate political strategies and have the potential to promote more corrupt and crony behavior (Lawton, McGuire, and Rajwani 2013). Just as different institutional structures dictate where firms direct their campaign contributions and lobbying efforts (Lux, Crook, and Woehr 2011), the level and quality of democratic representation may also affect the cost-benefits analysis for businesspeople candidates.

[15] Interview with Andrei Starkov, businessman and regional deputy, Perm, Russia. June 10, 2014

[16] Tagadryan, Tsiala. April 23, 2007 "Na Kryuchke of Ministry of Finance". *Yuzhniye Reporter* http://reporter-ufo.ru/2222-na-krjuchke-u-minfina.html (accessed February 9, 2015)

The most prominent of these arguments is made in Gehlbach, Sonin, and Zhuravskaya (2010). The authors first assume that businessperson politicians put the interests of their own individual firm before those of their constituents. That is, businesspeople are primarily in office to help their private companies, instead of performing a public service. Second, an assumption is made that running for office is more costly to businesspeople than professional politicians, since they are foregoing outside income to run their firms and serve as a deputy simultaneously. The authors then argue that when democratic institutions enable voters to hold politicians accountable for their time in office, there is less leeway for businessperson politicians to secure policies at the expense of those desired by the median voter. If candidates cannot break campaign promises made to voters and openly defend firm interests, the costs of running for office exceed the returns that can be secured. Therefore democratization compels firms to lobby politicians rather than run for office in order to avoid being voted out of office for being publicly connected to corruption. Low levels of accountability mean that candidates, businesspeople included, can achieve any policy they desire without fear of electoral punishment; the median voter does not have the ability to remove corrupt officials from office. The benefits of direct access to policymaking compensate for the costs of running an electoral campaign, making the direct strategy of pursuing political office a superior choice than other indirect ones where democracy is weaker.[17]

Problems with Current Explanations

I argue that the emphasis on democratic institutions in the literature is misplaced. First, the claim that voters are willing able to punish politician malfeasance requires that voters can identify the actions of businessperson politicians to divert resources

[17]The authors also find an interactive effect between weak electoral institutions and the presence of natural resources. Businesspeople are crowded out by professional politicians when both are present.

from public goods provision. Under standard accounts of retrospective voting, citizens need information about the policy decisions and performance of elected officials in order to make evaluations (Fiorina 1981). However, growing evidence exists that voters make mistakes not only about attribution, but about the nature of the actual policies in question (Healy and Malhotra 2013). The difficulties of identifying politician behavior that is not in the public interest may be especially present with regard to policies affecting business. Elected politicians are aware of the fallout for voters being able to pinpoint decisions made in favor of special interests, whether in return for campaign contributions or because the politician himself is an employee of a firm. Such tension creates an incentive to obfuscate. Politicians acting on behalf of businesses will pursue opportunities to gift policy far from public scrutiny (Gordon, Hafer, and Landa 2007). The demands of hiding preferential treatment may be one reason why existing studies of the effectiveness of corporate political strategies are in a logjam; simple analyses of voting records and readily observable political behavior may not uncover behind-the-scenes cooperation between firms and politicians (discussed in detail in the next section). Therefore, because all actors (including businesspeople) are aware of the potential electoral risks of advocating special interests in public office, politicians rationally maneuver to prevent voters from learning about this behavior.

Even if a voter universally expects that any candidate from a business background will defend his firm's interests partly at the overall public's expense, this fact alone may not dissuade the voter from lending their support. Voters may perceive desirable qualities in businessperson candidates (such as management experience) that outweigh any potential worries about their representation of private firm interests. A proven track record in business may be convincing evidence for voters of a politician's ability to better negotiate for the needs of constituents. Thus, the assumption that voters always prefer professional politicians leans too heavily on their innate distrust of businesspeople and awareness of the favors granted behind the scenes.

Secondly, businesspeople running for office generally expect that victory during election will bestow multiple years within the corridors of power. In order to rationalize the high costs of campaigning, firms pay for multiple opportunities to influence the policies of their choice over their term in office. Instead of lobbying for each individual decision, businessperson politicians can pursue legislation seemingly at will. Elections take place in cycles, giving politicians (including those that are businesspeople) ample time to stake their legislative claims.

Yet the predominant theory of businessperson candidates posits that businesspeople are especially fearful of voter punishment and the loss of re-election. In the first place, this underplays the importance of the entirety of the term in office that the businesspeople have just won during elections: on average, four to five years in office is substantial time to curry significant political influence. Election cycles dictate that with the exception of rare cases, voters cannot simply recall politicians within term for not providing sufficient public goods. Ratings and popularity may suffer (on condition that the cronyism is observable), but even in countries with developed democratic institutions, politicians are for the most part allowed to sit out their term. Businesspeople are not professional politicians in the sense that concerns over re-election figure most prominently in their utility calculation. Though some may prize their legacy in office, running for office is a still a nonmarket strategy designed at improving firm performance. For some businesses, a single term in office may be sufficient to achieve that objective.

These factors illustrate that when deciding about political strategies, businesspeople are not especially concerned about potential blowback from voters for pushing their interests while in office. In interviews, Russian politicians in general were dismissive of the willingness of voters to adopt a wider perspective about politician performance in office.[18] To them, elections were won and lost during the campaign, when benefits were offered to voters in the months prior to the vote loomed large. This anecdotal evidence aligns with wider studies on accountability that argue that voters in democracies adopt a very myopic or even irrational view of the performance of politicians (Bartels 2008; Healy and Malhotra 2009). Recent events weigh much more heavily than the actions taken over the full term, potentially leaving politicians many tools to mask their own performance to sway voters (engaging in vote buying and political business cycles are two notable examples). Politicians of all types may not be particularly constrained by freer elections from promoting the objectives of special interest groups.

On the other hand, the more precarious relationship may be that between the politician and the firm. Indirect strategies such as lobbying and campaign contributions provide no guarantee that a politician will not renege on the bargain and stop representing a firm's interest. Qualitative evidence from the Russia case suggests that firm owners were especially worried about their campaign contributions disappearing and not resulting in promised policies.[19] In the next chapter, I explore at length how this creates potential complications for firms trying to become involved in politics.

Lastly, recent evidence from the same case driving the theory of accountability and businessperson candidacies suggests that at a wider level, businesspeople may not be reacting to the presence of democratic institutions as predicted. In Russia, since 2003, a greater number entrepreneurs have taken seats in regional assemblies in more institutionalized regions, not less (Rastorguyev 2012). This contrasting result to Gehlbach, Sonin, and Zhuravskaya (2010) may stem from the different

[18] Interview with Galina Nemsteva, deputy of Tomsk Regional Duma, Tomsk, Russia. June 10, 2014; Interview with Vasiliy Semkin, businessman and deputy of Tomsk Regional Duma, Tomsk, Russia. June 11, 2014

[19] Interview with Valeriy Otsipov, deputy of Tomsk Regional Duma, Tomsk, Russia. June 9, 2014; Interview with Elena Zyryanova, deputy Perm Regional Duma, Perm, Russia, October 8, 2013

political environment in the late 2000s or the different level of analysis (governors versus legislators). The critique is not that firm owners do not enter politics to gain preferential treatment from the government, but that institutional factors may be driving the demand for certain political connections in important ways that the current state of the literature misses. What is needed is a more comprehensive theory that places the firm-politician relationship at the center, which I develop in the theoretical argument presented in the next chapter.

2.5 Returns to Corporate Political Activity

Finally, firms adopt political strategies in order to secure benefits for their bottom line. The type of political gain pursued can depend on a variety of factors, including sector, size, and the business environment where a firm operates. In weakly institutionalized regimes, businesspeople have looked to political strategies to help secure stronger property rights (Gehlbach and Keefer 2012; Markus 2012). Unequal distribution of these protections can force political action by businesses hoping to survive attempted expropriation or pressure by the government (Haber, Maurer, and Razo 2003; Frye 2006). In more institutionalized business environments where property rights are more universal, political goals may be more explicitly oriented towards maximizing rents in a firm's value chain, though this objective can be present among firms anywhere (Barnett 2006).

Yet analyses of the benefits of both indirect and direct political strategies have not reached definitive conclusions about whether a firm's expectation of a positive return is warranted. Positive political outcomes are assumed based on theoretical frameworks (Grossman and Helpman 1994), but rarely demonstrated empirically (Hadani and Schuler 2013). Using the categorization of CPA developed above, I present recent debates about the effectiveness of the various strategies. I also highlight several weaknesses in existing empirical strategies and suggest new solutions for addressing the complex puzzle.

The vast majority of studies looking at CPA effectiveness focus on the effect of campaign contributions on politicians' voting records and the direct achievement of beneficial policies, largely because of a greater availability of data on both accounts. This bias to 'look under the streetlight' has yielded results out of line with the popular perception that campaign contributions buy votes and laws. Only one quarter of studies included in one meta-analysis of the topic found a positive effect that money directly influences the actions of politicians (Ansolabehere, Snyder Jr, and Ueda 2004). The authors argue that campaign contributions are just one small part of a politician's calculus, and therefore should not be expected to definitely sway him or her in a desired direction. In addition, interest groups in general face difficulties pushing their desired policies through in a pluralist and competitive political environment. Their financial weight aside, these problems can also plague individual firms and their collective lobbies (Baumgartner et al. 2009). Fierce competition between firms in the same political market can also decrease the ability of any one firm to completely buy policy. Another meta-analysis came to the opposite conclusion, that campaign contributions were effective in influencing votes on policy, but urged caution in accepting the validity of all the studies analyzed (Stratmann 2005).

One potential solution is to shift the focus to firm-level outcomes, instead of purely political ones. Such an approach bypasses the exact mechanism about how each strategy works, but provides more concrete evidence about overall returns on investment. Zeroing in on the firm is still a practice in its infancy, as considerably fewer studies have been devoted to how companies concretely benefit from political activity (Hillman, Keim, and Schuler 2004). For example, the more firms spend on lobbying the US Congress, the greater tax benefits they receive (Richter, Samphantharak, and Timmons 2009). Similarly, campaign contributions made firms in the U.S. and Brazil resulted in higher stock returns (Cooper, Gulen, and Ovtchinnikov 2010; Claessens, Feijen, and Laeven 2008) and more state contracts (Boas, Hidalgo, and Richardson 2014).

Again though, the evidence is still inconclusive, as some studies have also found no effect of soft money and other political activities on specific firm-level outcomes (Ansolabehere, Snyder Jr, and Ueda 2004). Engaging in corporate political activity may also produce negative returns on firm performance (Aggarwal, Meschke, and Wang 2012). Lobbying in the U.S. in the financial sector often exposed firms to worse than normal stock returns once the financial crisis hit in 2008 (Igan, Mishra, and Tressel 2011). Hadani and Schuler (2013) look systematically at the most important and popular corporate political activities (campaign contributions, lobbying and hiring public officials) and find a starkly negative effect of all three on firm returns, except in the case of firms operating in highly regulated sectors.

Similar problems have plagued researchers digging into the returns to direct strategies, such as hiring former public officials and developing political relationships. Politically active firms can improve their changes of receiving advantageous credits and loans (Khwaja and Mian 2005), lowering their cost of capital (Boubakri et al. 2012), increasing their stock returns and profitability (Carretta et al. 2012; Li et al. 2008), securing preferred legislation (Hillman, Keim, and Schuler 2004) and winning state contracts (Goldman, Rocholl, and So 2013). Yet political connections may also undermine a firm's competitiveness, investment behavior, and ability to innovate (Desai and Olofsgard 2008). Given the often times illicit nature of the bargain, politicians may also require substantial contributions from firms, and can easily withhold their influence, costing firms valuable returns. As members of boards of directors, they can more easily extract resources and engage in rent-seeking (Faccio 2006). In addition, the effectiveness of political ties may be undermined by the institutional environment. In countries with strong rule of law, political connections can actually hurt stock performance (Brockman, Rui, and Zou 2013). If political circumstances change, a tie to the 'wrong' type of politician can even impose a range of negative consequence on a firm (Siegel 2007). The direct strategy of cultivating ties can incur sizable risks to a firm, muddying the picture of the overall effectiveness of these types of political activities.

To briefly summarize, scholars have not arrived at a clear consensus over whether corporate political activity as a whole is a profitable strategy for firms. The wide variation in empirical results strongly suggests the need for a more conditional approach to analyzing the returns on political investment. Although firm directors may be rational actors intent on improving market-based performance, their information and understanding about the political environment they are engaging in may be limited or flawed. Thinking about negative returns as evidence of failed CPA changes the overall research question from 'whether' firms benefit to 'when' firms benefit. Examining the conditions under which some firms profit from various types of political activity and others don't offers greater opportunities for understanding both the expectations of firm directors and the political factors that might derail their plans.

Another challenge to research on CPA is determining the dependent variable to be used. To date, looking at observable roll-call votes has been the easiest and most popular method of analysis of firm-politician relationships. But when mechanisms of democratic accountability are functioning properly, politicians face the risk of punishment for overtly prioritizing the demands of special interests over their constituents as a whole. This incentivizes obfuscation and severely complicates attempts to identify to what extent a *quid pro quo* is taking place (Gordon, Hafer, and Landa 2007). A number of other political responses, such as agenda-setting or committee-markups, may be much more valuable to firms and attractive to politicians looking to avoid fallout from voters. Unfortunately, these actions are less observable to both scholars and voters and thus escape attention. Problems with identifying the effects of political strategies are no less pressing in less institutionalized environments. Nondemocratic ruling coalitions remain vulnerable to charges of corruption, which can galvanize opposition support and threaten their hold on power (Tucker 2007). The popularity and stickiness of the label 'The Party of Crooks and Thieves' to Vladimir Putin's ruling United Russia party during nationwide protests in 2011 in part captures public anger about politicians placing certain economic interests above general welfare. The need to hide these illicit or politically unsavory transactions creates obstacles for teasing out what firms get in return for entering politics. Given the difficulties of unmasking pure favoritism by politicians towards firms, scholarship would benefit by concentrating instead on a firm's bottom line and the actual policies and regulations that might affect it.

Finally, the literature on the efficacy of adopting corporate political strategy has also suffered from problems of causality (de Figueiredo and Richter 2014). Though the presence of political connections has been regularly found to be correlated with enhanced opportunities for the firm, existing empirical designs still cannot account for omitted variable bias in driving this relationship (Hillman, Keim, and Schuler 2004). Political influence is not randomly assigned. Firms with strong political ties make have pre-existing advantages in the market that enable them to penetrate the political sphere. Therefore, uncovering a beneficial effect of the ties may instead be capturing these characteristics. Likewise, several works have found that firms in weaker financial states are more likely to engage in CPA. The later identification of a negative return on CPA may be reflecting these pre-existing economic weaknesses, magnified by increased expenditures in political markets that distract a firms from market strategies to improve its position. One exception is the use of national experiments, which helps measure the market value of political connections if not elucidate the mechanism by which this type of direct strategy produced the effect (Fisman 2001; Faccio 2006). Studies on CPA need to reorient towards firm-level analyses that both incorporate identified empirical strategies and quantify the returns from political activities beyond vague notions of policy or 'access'. Recent trends in this direction are encouraging, but to date, the total number of studies numbers only a handful and is almost universally limited to the U.S. context.

2.6 Ways Forward

The literature on corporate activity has largely overlooked an important means for firms to influence public policy: running representatives for political office. Though similar to other direct corporate political strategies as cultivating political connections, the use of businessperson politicians bestows superior access to political actors, but also incurs greater costs. These distinct characteristics merit a fresh look at the deliberative process of businesspeople over the decision to run for office. I argue that existing theories over the choice between indirect strategies (such as lobbying and campaign contributions) and direct ones mischaracterize the major trade-offs that firms face when deciding between the two paths. Theorizing about this choice should take into account the tenuous relationship between politicians as firms, as well as make substantive predictions about expectations of firm utility from political strategies. Moving forward I build off the insight that the key relationship driving the choice of corporate political activity is between a firm and the politician, while adopting an empirical approach to measure the payoffs that prioritizes identification and firm-level outcomes.

Chapter 3

Chapter 3: The Determinants of Businessperson Candidacy

Why do some businesspeople run for political office, while others do not? One prominent theory holds that greater democratization reduces the incentives for businesspeople to run for office, since voters can punish and remove public officials from office who engage in corruption or pursue private interests (Gehlbach, Sonin, and Zhuravskaya 2010). Since businessperson legislators are assumed to pursue particularistic policies that benefit narrow interests, they are less electable in the eyes of voters who favor wider public goods provision. Therefore, strong democratic institutions force politicians to stick to promises made to the electorate during electoral campaign and dissuade businesspeople from looking towards public office as a cost-effective avenue for achieving policies benefiting their firms.

In contrast, this chapter builds on the insight the level of democratization is not central to the decision that firms face when attempting to influence policymaking. The strength of electoral institutions and voters' ability to punish corruption politicians weighs far less heavily in the calculus of businesspeople optimizing across non-market strategies. Voters must be able to learn about preferential firm treatment in order to eject businessperson politicians from office, a strong assumption even in places with free media. Elected politicians understand that they are in the public eye and take steps to hide their activities from voters (Gordon and Hafer 2007). Voters also need not automatically withhold favor from candidates from the private sector; successful experience in business and management can be a powerful tool for attracting popular support during an election campaign. Therefore, we should neither assume that voters always prefer professional politicians nor that businesspeople focus on the quality of public accountability mechanisms when deciding how to act politically.

In this chapter, I instead argue that holding elected office becomes an attractive corporate political strategy only when more conventional avenues lose their efficacy. I first assume that businesspeople are rational actors maximizing the amount of rents throughout their firms' value chains (Porter 1980); decisions over nonmarket strategy are made based off of cost-benefit analysis of which approaches will result in the greatest return on investment. The decision to run for office therefore depends the perceived effectiveness of other avenues into politics, i.e. whether a firm director can trust that the politicians they lobby or fiscally contribute to will adequately represent their interests. When businesspeople fear that an elected politician will shirk on their promises to special interests, directly occupying a legislative seat becomes a more viable legal avenue to achieve political influence. Politicians will be more likely to shirk promises when rival firms have representatives in parliament that can counter with superior offers or when political parties are insufficiently strong to punish member politicians for defection. I hypothesize that greater economic competition (which results in the presence of resourced rivals competing for political dividends) and weak party institutionalization (whereby parties lack strict control over individual deputy behavior) will both increase the likelihood that businesspeople will pursue legislative office as a means of promoting their firms' interests. However, businesspeople must also pay sizable costs in order to win electoral campaigns. I claim that larger firms will have greater resources to pursue this type of corporate political strategy, while those in wealthier regions will abstain since the costs of attracting voter support become too great to manage.

Evidence to support my hypotheses comes from an original dataset of 8,829 firms represented by businessperson candidates to regional legislative office in Russia during the period of 2004-2011. Businessperson candidates were first identified by matching the entire universe of 39,552 candidates to all firms they managed at the time of their electoral campaign. I then estimate the probability that a given firm will see its director run for elected office using data on the characteristics of the universe of two million Russian firms as well as a range of industry and region-level predictors measuring sectoral concentration and institutional quality. To illustrate the mechanisms, I draw from over 40 semi-structured interviews with businesspeople, politicians, and experts in three Russian regions.

The results in this chapter indicate that businessperson candidacy emerges when normal politics breaks down. To some degree, businesspeople are not natural politicians: the opportunity costs of running for office are much higher given the extra set of duties from serving in public office at the same time as running a firm. But when other avenues available to influence politics become ineffective, winning a seat in a legislature becomes an imperative for firms. Professional politicians who fail to champion powerful interest groups within society risk being supplanted by represented of these groups themselves, in this case, firm directors. In the end, lawmaking bodies become forums for direct negotiations between these interests rather than among political delegates who represent a variety of societal factions.

3.1 Direct versus Indirect Corporate Political Strategies

Companies can carve out political influence using a variety of tactics. As we saw in the last chapter, they can first use indirect strategies to influence politicians to work on their behalf, such as by hiring lobbyists or making campaign contributions (Aggarwal, Meschke, and Wang 2012; Hall and Deardorff 2006; Ansolabehere, Snyder Jr, and Ueda 2004).[1] Campaign contributions to politicians are concentrated during the run-up to elections, as firms pay with the expectation of gaining policy representation conditional on the victory of their chosen candidate. In contrast, lobbying happens on a policy-by-policy basis throughout the term in office. Businesses pay the cost of an intermediary (the lobbyist) or make contributions to a politician's campaign chest in order to increase the likelihood of their desired policy being passed. When *quid pro quo* exchanges are arranged, they are usually signed off on informally due to legal restrictions on paying for policy. This informal nature exposes businesspeople to a degree of risk that the promises made to them by politicians will not be carried out after the contribution or lobbying expenditure has been made. Evidence from several countries suggests that politicians sometimes have explicitly written out price lists that document the cost of each legislative policy or service (Slinko, Yakovlev, and Zhuravskaya 2005; Ledeneva 2011), but such maneuvering can draw negative public attention and criminal charges.

The second set of options available to businesspeople is direct in nature, involving the development of personal ties with active politicians in office who agree to represent firms without the use of intermediaries. Two so-called relational strategies

[1] Though some regulations are under the purview of the executive branch and/or bureaucracy, firms have been thought to mainly cultivate favor with legislators, who are often responsible for drafting key economic policies through budget or finance committees (Naoi and Krauss 2009; Macher and Mayo 2015).

are available to firms: appointing current public officials to positions in the firm or committing someone from the firm to run for political office. Both enable a firm to secure policy representation over the entire term of a legislature, instead of having to engage in individual transactions of legislation through lobbying. In the first case, the public official often becomes a paid employee of a single firm or acquires an ownership stake. In the second, sending a member of the firm's management directly into the legislature allows a firm to bypass negotiations and contributions and personally put forward legislation deemed important to the firm's interests.

When do businesses opt for direct strategies over indirect ones? As rational actors, businesspeople weigh the costs and benefits of both approaches, opting for the one with the highest expected payoff. The high cost of running for office is a strong deterrent. Economic elites must spend potentially enormous amounts of time and money to win elections, not counting the subsequent opportunity costs of devoting effort to policymaking and not solely focusing on business activities. As a result of these prolonged and intensive expenditures, businesspeople candidacy is among the most expensive of all corporate political strategies. This cost of running for office can vary across a number of political or economic factors, including the probability of winning a seat, the expectations of voters, the appointment power of the office, among others, just as the price of lobbying for policy can differ across settings (Palda 1992; Artés and Viñuela 2007; Fox and Lawless 2011).

Besides the costs of lobbying or mounting a campaign, firms must also examine the expected benefits from employing an intermediary or from choosing to directly enter the political arena by becoming politicians themselves. This decision strikes at the heart of a fundamental commitment problem for businesses related to corporate political strategy: ensuring that the politician the businessperson has lobbied or donated money to follows through on their end of the informal bargain. Businesspeople only choose the direct strategy of putting forth political candidacies when its benefits outweigh those of lobbying or campaign contributions (taking into consideration the probability of transaction breakdown with the politician). Because running for office is so costly to businesspeople in itself, substantial uncertainty must exist about the ability of elected politicians to carry out promises in order for businesspeople to elect the direct approach.

Numerous scholars have highlighted the difficulties of establishing a *quid pro quo* exchange between politicians and special interest groups (Naoi and Krauss 2009; Hall and Deardorff 2006; McCarty and Rothenberg 1996; Snyder Jr 1992; Stokes 2005; Weingast and Marshall 1988). No third party enforcement mechanism exists to ensure that lobbying or campaign expenditures given ex ante result in an ex post delivery of policy. Because such contracts are supralegal and cannot be written down, they rely on trust or reputation to become self-enforcing. Long-term strategies may be needed to develop such bonds (Snyder Jr 1992), though other evidence exists that conflicts between long and short-term incentives may aggravate, instead of alleviate, the problem (McCarty and Rothenberg 1996). One observer in Ryazan Region noted that in the 1990s, violence was used to enforce contracts between businesses and politicians, but with improved enforcement of the rule of law, that strategy was no longer viable.[2] In short, we know little about how, if at all, these contracts are enforced, with existing scholarship simply assuming that businesspeople can constrain politicians to hold up their side of the bargain.[3]

[2]Interview with Aleksander Semenov, professor, docent of the Ryazan' branch of the Moscow State Art and Cultural University, November 18th, 2013

[3]For example, a claim has been made that both campaign contributions and lobbying expenditures occur as part of a "spot-market transaction" for policy, similar to a retail market exchange, with implicitly binding contractual obligations in place (Gehlbach, Sonin, and Zhuravskaya 2010). Politicians accept the highest bids for policy under a menu auction, and businessperson can rest assured that their money is well-spent.

3.2 The Problem of Politician Shirking

In response, I relax the assumption that politicians exclusively follow through on their promises to firms. This results in a credible commitment problem between the two sides. The payoffs from adopting an indirect strategy, such as lobbying or campaign contributions, are potentially very uncertain because of the likelihood that politicians defect. My argument rests on two factors that shape whether or not politicians carry out bargains made with businesspeople who have lobbied or donated money. The first relates to the individual ability of the politician to implement the desired policy, while the second concerns opportunities to defect and steal contributions made by firms without offering anything in return.

First, politicians lobbied to represent a firm's interests may run into obstacles securing the policy promised to a firm. Politicians may be new to the legislative process or insufficiently influential to adequately represent their business financiers. Businesspeople may then have to expend considerable additional resources building a coalition of supporters within the legislature to get preferential bills passed, raising the overall costs of the indirect strategy. However, firms are loath to invest capital in politicians with weak opportunities for delivering policy. Arriola (2013) finds that politicians in Africa with a demonstrated capacity to mobilize large number of votes, considerable public or private sector service, and/or the backing of ethnic groups all attract greater financing from local economic elites. Information about candidate ability affects expectations about their future tenure in office, with strong incumbents, committee chairs, and up and coming leaders capitalizing on a more proven track record of legislative success to raise more money (Potters and Sloof 1996; Snyder Jr 1992). Therefore, the breakdown of an informal firm-politician bargain due to capacity is less likely to occur, given that rational firms will pre-select capable individuals for their indirect investments.

A second reason why a breakdown in the firm-politician bargain could occur involves shirking. A businessperson may fear that a politician will simply take their money and give back no policy in return. This defection takes place because a politician decides to pocket the contribution but exert no effort, or because another interest group has paid a higher price for the same policy representation. Politicians, especially those wielding increased authority within office, are beholden to multiple constituents and receive competing offers from many interest groups. If bids are made under more or less secret all-pay auctions, a firm cannot be sure that its initial investment in campaign contributions or lobbying will not be matched or exceeded by a rival group (Naoi and Krauss 2009; Hall and Deardorff 2006). By its very nature, lobbying happens behind closed doors, and few countries have strict legal regulations to disseminate all expenditures into the public realm. Firms may have little knowledge about a politician's true intended action and could be sinking money into a black hole.

Qualitative research from Russia on the reasons why businesspeople seek office confirms this intuition. It should be noted that businesses have ample experience from which to draw on, having made campaign contributions and lobbying at the regional level throughout the period. Roughly 17% of firms from eight cities across Russia answered that they 'sometimes' or 'always' had been able to influence legislation at the regional level, a higher figure than at the federal level but lower than at the municipal one (Frye 2002). In a later firm survey from 2011, nearly 30% of those firms that lobbied at the regional level preferred to work through the regional legislature (Reuter and Turovsky 2014). Barsukova and Zvyagintsev (2006) document the massive sums of illicit money funneled to candidates to regional legislatures from businesses as a 'political investment' in later policy. Fierce and open lobbying and counter-lobbying over issues such as travel regulations, car sales, and fertilizer taxes is present at the national level as well (Denisov 2010).

But interviews with key actors in two Russian regions (Tomsk and Perm') often raised the issue of politicians being untrustworthy and betraying their promises to special interests. Businesspeople in Rostov region began running in greater numbers in the mid-2000s as a result of deputies' "short memory": deputies quickly and conveniently were forgetting who had supported them and, unlike an employee, could not be simply fired from their position.[4] Removing a shirking politician is nearly impossible because of the electoral calendar and difficulty of putting forth a credible alternative candidate. A director of a construction firm and elected deputy of the Tomsk Regional Duma expressed a similar sentiment, noting that the ease of breaking informal deals lowers businesspeople's trust in politicians.[5] Because official agreements to keep politicians in check are illegal, businesspeople must rely on personal connections to make sure that their campaign contributions actually lead to policy results.[6] Elected politicians are viewed as easily malleable, ready to renege on a deal if a better offer comes along. In sum, firms cannot always buy preferential treatment; they need access to influence how policies are made overall (Engvall 2014).

3.3 Market Environment, Political Parties and Politician Shirking

I claim that the probability a politician shirks first depends on the composition of the legislature itself. We assume that politicians care both about their own policy preferences and about raising revenue from lobbying and contributions. One possible source of a better offer is from another politician directly representing a

[4]Smirnov, Sergei. October 28, 2010 "Why Do Businesspeople Want to Be MPs?" *Delo.ru* http://deloru.ru/blogs/business-and-government/why-businessmen-an-mp/ (accessed February 20, 2015)

[5]Interview with Valeriy Otsipov, deputy of Tomsk Regional Duma, Tomsk, Russia. June 9, 2014

[6]Interview with Elena Zyryanova, deputy Perm Regional Duma, Perm, Russia, October 8, 2013

competing firm who can make a higher bid on a policy. To simplify the explanation, take the following illustrative example. Assume two competing firms are vying for a policy. Firm A decides to invest in an indirect political strategy by paying to influence Politician A. Firm B instead adopts a direct strategy and runs Politician B to directly represent the firm. When negotiations over the policy begin, I argue that Firm A will always get outbid by Politician B, who can offer much more to Politician A than Firm A's campaign contributions or lobbying expenditures. For example, Politician B can trade votes on other policies important to the politician in addition to other resources. This type of vote-trading can be common in legislatures with strong representation of business interests, who view the institution as a forum to both network and secure economic advantages (Spector 2008). Therefore, indirect lobbying becomes a less advantageous strategy when businesspeople politicians directly representing competing firms are in office and can block desired lobbied-upon policy initiatives.

The situation presents a coordination problem. All firms would be better off if none personally ran for public office. That way, each could delegate its policy aims to its elected politician, and let their representatives negotiate out differences within the halls of the legislature. However, the fact that some businesspeople opt for office increases the likelihood that other companies will also run candidates; once one firm achieves representation, it lowers the expected benefit of using an indirect strategy and makes direct participation necessary to get any desired policies passed. Politician shirking can be induced by logrolling legislation and making superior counter offers from within the legislature. Therefore, competitors simply mimic one another's direct strategy and forgo the indirect approaches.

Key to this logic is that firms fear most that their rivals will win seats and use their political position as a source of competitive advantage. In general, the actor most capable of enticing a contracted politician away from carrying out an informal bargain with an individual firm will be a businessperson politician representing a competing firm within the same sector. Firms concerned about their within-sector rivals putting forth candidates should run their own candidates to counter the influence that their competitor will gain from direct representation. Therefore, firms in sectors in which there are several rivals that can bear the costs of running for office should be more likely to run for office. In very dispersed sectors, no firm has sufficient market share to afford to run for office, and an alternate equilibrium arises where the entire sector elects to use indirect strategies. The measure of this type of competition is the level of oligopolistic concentration within a sector.

Hypothesis 1 *The more oligopolistic a firm's sector is, the more likely its director will run for office.*

The argument that greater concentration induces rivalry among firms goes against the Olsonian approach which connects concentration to the solution of collective action problems (Olson 1965; Ozer and Lee 2009). Larger firms are better able bear the costs of collective action (Pittman 1977), while a high degree of concentration helps mitigate free-rider problems and increases the likelihood of cohesion between firms (and then their joint mobilization around shared political goals) (Frieden 1991). However, the empirical evidence in support of the industrial concentration theory has also been decidedly mixed (Grier, Munger, and Roberts 1994; Mizruchi and Koenig 1988; Mitchell, Hansen, and Jepsen 1997; Barber, Pierskalla, and Weschle 2014; Hansen, Mitchell, and Drope 2004). High levels of concentration may also work against cooperation within associational structures. Where competition within a given sector is low, profit margins are higher. My argument aligns with recent work showing that firms see increased returns for their own profitability by lobbying their interests individually (Bombardini and Trebbi 2012; Richter, Samphantharak, and Timmons 2009).

The political structure of a state can also shape how firms put together their corporate strategy (Henisz 2000). Whereas previous scholars emphasize 'entry points' onto policymakers (Macher, Mayo, and Schiffer 2011), much less attention has been paid to the relations companies must cultivate with these actors. For example, firms can sometimes punish politicians who renege on their bargains; tools such as mobilizing votes against a candidate or endorsing or promoting a rival can help keep a politician's defection impulses in check (Naoi and Krauss 2009). Playing off these reputation concerns and electoral vulnerability is key: where politicians are not worried by the loss of support of key constituencies, their loyal behavior with regards to carrying out promises is undermined. Political parties may help alleviate this commitment problem between politicians and firms (Stephenson 2003).

Parties form to convince contributors that they can freely donate money for political causes that later won't be reneged upon. Developing strong and public brands solidifies this bargain, for parties can punish deviating politicians who jeopardize the image of the party as a credible political partner. Likewise, candidates who benefit from party support will be wary of risking it by fraying ties with influential businesspeople who are critical to funding electoral campaigns. When parties have weak control over their members or exhibit short time horizons, businesspeople have fewer guarantees that the politicians they court can be deterred from taking their money and running.

Hypothesis 2 *Businessperson candidates will be more prevalent where political parties are weaker.*

The argument outlined in Gehlbach, Sonin, and Zhuravskaya (2010) similarly claims that political party strength will be negatively correlated with interest among firm management in running for office. In their theory, political parties constrain politicians from acting opportunistically and breaking promises made to voters based on the notion that parties are concerned with re-election prospects and maintaining support within society. The argument outlined here differs by positing that worries over losing donors, not voters, prompt strong parties to reign in businesspeople who might abuse their term in office for their own private interests.

3.4 The Costs of Candidate Entry

The second set of reasons why businesspeople will be deterred from running concerns the cost of running for office. Citizen-candidate models predict that regulations which impose registration fees or require candidates to collect a large number of voter signatures can have a dramatic effect on the number of candidates willing to run for office. Similarly, recent work has claimed that the increases in campaign spending over time in the United States have reduced the size of the overall candidate pool available to run for political office (Hall 2015). As the burden of fundraising increases, even professional politicians become less interested in giving up their current office to seek a higher position. High costs require companies to spend capital on campaigns and not on investment projects to grow their market share through their core business activities. If campaign demands run too great, then no amount of political influence achieved by winning a seat can compensate a company for the opportunity costs of diverting such a large share of its assets to the political realm. Therefore, I argue that we should see fewer businessperson candidates in places where more resources are required to win seats in a legislature.

Lower campaign costs also increase the probability for a given firm that one of its competitors will make the choice to run for office. Because candidates sponsored by rival firms can reduce the return on indirect political strategies, a given firm must follow the trend and pay the cost of running a candidate themselves. Thus, a selffulfilling prophecy occurs: businesspeople expect their rivals to contest seats and put forth their own candidates in order not to be left out. On the other hand, high prices deter the majority of firms, limiting the number that can afford to pay. Indirect lobbying becomes a more attractive strategy because the costs of the alternative direct political strategy are unmanageable.

I argue that variation in the amount of money required to run a campaign primarily depends on the income of the median voter. From buying advertising time on television to printing posters and flyers for distribution, elections require large expenditures to win. The resources needed to fund these activities correlates with the wealth of the constituency: where wages are higher, the price of basic campaign materials rises. In countries where voter rights are not protected, campaigns must also incur an additional set of expenses through vote-buying. Citizens who sell their vote can place extraordinary demands on parties and candidates, especially where there are multiple suitors for their vote. Corstange (2016) shows that wealthier citizens capitalized on party competition to engage in increased vote-selling at a higher prices. Richer localities require more attention and resources to swing over to a candidate or party's side, and thus deter businesspeople from seeking office.

Hypothesis 3 *More businesspeople will run for office in regions with a lower average income among voters.*

It also stands that, because running for office is so costly, firm size will play a definitive role in predicting which firms will run. Only firms with excess capital not allocated to key projects can afford to dedicate the time and resources to running a campaign. In addition, larger firms have more employees at their disposal to mobilize and persuade to support a firm director who runs for office (Hart 2001; Frye, Reuter, and Szakonyi 2014). This advantage in orchestrating voter mobilization can reduce the costs of courting voters in a constituency by creating brokers from workplace supervisors who are incentivized to turn out the voter in favor of a political candidate. Firm size has been found to be an important determinant of numerous types of corporate political strategy for similar reasons (Hillman, Keim, and Schuler 2004; Chong and Gradstein 2009).

Hypothesis 4 *The larger a firm is, the more likely its director will run for office.*

One prediction that flows from the argument on campaign costs is that over time as the cost of running for office increases, businesspeople should be less likely to seek office. For example in the United States, the resources needed to mount a national-level electoral campaign have markedly jumped in the past several decades (Hall 2015). Though this question partly falls outside the scope of this dissertation, it may explain why comparably fewer businesspeople run for political office in more industrialized countries. Professional politicians face similar obstacles in raising funds to run campaigns, but do not suffer the same set of opportunity costs as businesspeople in dedicating themselves basically full-time to persuading donors to give money.

3.5 Data and Empirical Strategy

I examine the determinants of businessperson candidacy by looking at 159 elections to regional legislatures from 82 regions in Russia from 2004 to 2011.[7] Operating at the highest subnational level, regional legislatures are critical actors in Russian politics, holding responsibility for passing budgets, developing programs for social and economic development, confirming the appointment of officials, and setting

[7] The Russian Federation is technically composed of different types of federal subjects, including republics, oblasts, krais, autonomous krugs, and federal cities, even though each is governed by the same federal legislation. For the purposes of this dissertation, I refer to all of these entities through the single word: 'region.' Similarly, each of these regions has their own name for their lawmaking body. I use the term regional legislature to refer to them as a whole and 'Regional Duma' when using them as proper nouns.

land and transportation tax rates, among other activities. Organized interest groups view these legislatures as key sites of contestation over policy and spoils, where laws with long-term impacts on regional concerns are drafted (Reuter and Turovsky 2014; Remington 2008). Legislative committees are convened on a variety of issue areas from agriculture to health and education, helping drafting laws that affect funding such as subsidies, state guarantees, contracts, and transfers from the regional budget. These powers make them attractive for companies looking to get involved politically through a variety of means, as evidenced by multiple firm surveys (Marques, Govorun, and Pyle 2014; Reuter and Turovsky 2014).

Regional legislative elections are staggered in Russia according to an exogenously preset electoral calendar. Legislative elections were held for roughly 10% of regions every six months (on unified spring and fall dates). This time period chosen begins immediately after the passage of a national law[8] in December 2003 that restructured regional political competition by requiring that each region allot at least half of legislative seats to candidates from proportional representation (PR) lists (Golosov 2011). This resulted in the majority of subnational legislatures utilizing a mixed electoral system as well as provided a significant impetus for political party development across the entire country. Each legislature determined the exact ratio of deputies elected either from single member districts (SMD) through a plurality system or party lists (PR) through a proportional representation system, with eleven regions using the party lists exclusively to select their representatives (Lyubarev 2011). For the purposes of this analysis, I include all candidates to office from both electoral systems.

I collected data on all 39,552 candidates to regional legislatures during this period from the Central Election Commission of the Russian Federation (CEC). All electoral

[8]Federal Law No. 67-FZ of June 12, 2002. 'On the basic guarantees of citizens' electoral rights and the right to vote in referenda' http://www.cikrf.ru/law/federal_law/zakon_02_67fz_n.html (accessed January 3, 2016)

data was cleaned and organized by the Center in Support of Democracy and Human Rights Helix (http://db.geliks.org/), with any missing data gathered directly from the main CEC portal (http://www.vybory.izbirkom.ru/region/izbirkom). Approximately 41% of all legislative seats from 2004-2011 were chosen using SMD rules, with the remainder going to candidates from the party lists. Some Russian regions use a closed party list system to determine which candidates actually take seats in regional legislatures upon their political party winning votes. Party members are not thus obligated to enter legislature, resulting in both national-level politicians and governors heading party lists during elections, but declining their deputy seats when their parties cross the electoral threshold. I exclude all candidates from the sample who earned a seat on their party list but did not take it.[9]

All analysis is done at the firm-level and I limit the sample to only those firms that were registered in the same region as a given legislative election and that submitted balance sheet information for that year. The main outcome of interest is a binary indicator for whether a firm's director, deputy director or board member ran as a candidate to regional legislative office.[10] Candidate business affiliation comes from the Unified State Register of Individual Entrepreneurs (EGRIP) database which contains basic demographic information (age, registration date, etc.) and unique tax identification numbers on almost 12 million 'individual entrepreneurs' in Russia. The SPARK Professional Market and Company Analysis System combines this entrepreneur database with using official registration data for nearly 3 million firms in Russia, allowing me to connect each entrepreneur entry to every legal entity that they have been affiliated.[11] A Python algorithm was used to match each candidate

[9]Less than 500 candidates met this definition.

[10]Because of difficulties identifying end beneficiaries in Russia during this period, I cannot measure candidates' ownership stakes in companies and thus restrict the sample to formal leadership positions.

[11]See Data Appendix for more information on the SPARK database.

using his or her first name, last name, middle name, region, and birthdate to their corresponding entry in the SPARK 'individual entrepreneur' database. Manual matching was done where entries did not exist, but information on candidate employment could be derived from official electoral data.[12] Roughly 21% of all candidates, or 8,090 individuals, were actively working in the top management of a firm at the time of the regional election; I use this binary indicator to identify the connected firms. For more details on how the data was constructed, please refer to the Data Appendix.

As a robustness check, I follow Gehlbach, Sonin, and Zhuravskaya (2010) in denoting some firms as connected to 'serious' candidates. Given the wide variety of personalities running for office in Russia, restricting the analysis to candidates with a realistic chance of winning office allows us to better test the incentives for businesspeople to both run for and actually hold elected office. Some businesspeople may view campaigns as opportunities for free advertising and act differently than their counterparts who are truly interested in serving in office. I created two additional binary indicators: 1) firms connected to candidates that either received more than 5% of the vote in a plurality race, held one of the top ten 'core' spots on the party list, or were among the top five members of a geographic grouping (Lyubarev 2011) and 2) firms connected to candidates that either received more than 10% of the vote in a plurality race, held one of the top five 'core' spots on the party list or were one of the top three spots in their geographic grouping.[13]

To test Hypothesis 1 that more oligopolistic sectors spawn more businessperson candidates, I calculated the level of concentration for each sector using the universe

[12]Unfortunately, the SPARK database does not provide information on family or social ties to measure whether a firm was represented by a relative or friend of its registered management.

[13]Regions vary in their use of methods to allocate seats, as some follow the Russian State Duma practice of partitioning the party list into a set of geographic groupings intended to more closely connect representatives with the electorate. Using rank data, I coded whether candidates were at the top of these groupings, an indicator of prominence as well as likelihood of entering the legislature if the party passed the electoral threshold.

of official firm financial data from the Orbis database.[14] For each region-year when a legislative election was held, I added the revenue of the four largest firms in each two-digit category of the All-Russian Classification of Kinds of Economic Activity (or OKVED)[15] and then divided that sum by the total revenue of all firms in the same category for that region-year combination.[16] This approach mirrors that conducted by the U.S. Census Bureau, which calculates similar ratios of the four largest firms for each four-digit NAICS code (Drope and Hansen 2009).

I use two independently collected measures of political party strength from the Central Electoral Commission. First, I calculated the total expenditures on rent, communal services, communications, transport, and salaries per region by the four major political parties that had representation in the Russian State Duma over this time period: United Russia, the Communist Party of the Russian Federation, Just Russia (and Rodina), and the Liberal-Democratic Party of Russia.[17] When controlling for regional wealth, this variable helps capture how prominent each party is in the region using their spending behavior as well as their long-term investments in sustaining an active office. The data on expenditures comes from annual regional reports that each party is required to submit to the Central Election Commission.[18] Hutcheson (2012) discusses in greater detail the reliability of this party spending

[14] A competitor to SPARK, the Orbis service (a property of Bureau Van Dijk) aggregates all balance sheet information for registered Russian firms. The underlying data is identical.

[15] OKVED is the internationally recognized industry classification used by the Russian State Statistics service during this period.

[16] The results are robust to using alternate formulations of this concentration variable including taking the top three largest, the top five largest, and calculating a Herfindahl index for all firms in the sector.

[17] The results shown below are robust to alternate formulations of this variable, including the expanding the definition of national parties to include all parties present in the 2003-2007 convocation of the Russian Russian State Duma.

[18] For a detailed overview of what information Russian electoral law requires that parties submit, see Appendix 8 from Postavleniye N 163/1158-5 “About Recommendations for Compiling Reports on Contributions to and Expenses by Political Parties, Regional Branches of Political Parties, and other Registered Structures of Political Parties and About Recommendations for Compiling Financial Reports for Political Parties.”

data, noting that although scholars believe the figures underestimate total electoral financing, the reports are audited by the Central Election Commission which has the power to deregister parties found to be concealing funds. His conclusion is that the data are simply the best available on party activities with biases only reflecting parties attempts to hide the identities of large individual donors, and not the volume of their donations or spending.

In Russia during this period, candidates to legislative office at all levels of government did not require support from a political party to participate in an election. Instead, they could run as independents if they could amass the necessary number of signatures on their own to submit to the electoral commission. Akin to Gehlbach, Sonin, and Zhuravskaya (2010), I also created a proxy for regional variation in party institutionalization by measuring differences in the nominating practices for candidates in single-member districts. I calculate the percentage of candidates that affiliated with one of the four main parties. This approach has both advantages and disadvantages over that used in Gehlbach, Sonin, and Zhuravskaya (2010). Because the State Duma moved to a complete proportional electoral system in 2005, measuring variation in candidate party affiliation at the national level in the period following the 2007 national parliamentary elections is impossible. The strategy used here of coding party affiliation for regional legislative candidates overcomes this problem, while also providing a more localized measure of party penetration into regional politics. This however comes at a cost: data on candidate affiliation is missing for the eleven regions that did not use a plurality system to elect regional deputies. Therefore, I use this second measure as a robustness check.

I test Hypothesis 3 on the costs of running for office with a variable measuring the annual gross regional product for each region. This data is taken from the Russian State Statistics Agency. Lastly, I measure firm size by logging the total assets of each firm (in rubles) in the year the businessperson ran for election. In addition to information on registration and management, the SPARK database includes complete information on balance sheets.

Alternate Explanations and Controls

The above theoretical framework looks at how firms weigh the benefits and costs of running for office as opposed to adopting more conventional strategies such as lobbying or campaign contributions. However, we might expect several other factors to shape patterns of politician shirking, which I account for in the regression specifications. As noted above, existing work holds that strong political institutions may help enforce bargains between politicians and firms. Deterred by potential punishment by voters where elections are competitive and accountability mechanisms are strong, politicians stick to promises made to interest groups, who must be courted in order to gain re-election (Gehlbach, Sonin, and Zhuravskaya 2010). Similarly, freer media may help expose and punish 'bad politicians' in elections, not just over their abuse of the public purse (Ferraz and Finan 2011), but also due to broken commitments to the broader set of interested parties. Entering into collective actions might also solve the coordination problem of firms preferring not to put forth candidates, but fearing the repercussions of their rivals doing so. As aggregators of the interests of multiple firms, business and trade associations could help organize and concentrate lobbying activity as well as allow firms to coordinate not to participate in elections. These associations may also enable firms to collectively punish politicians who defect on promises.

I operationalize the claim that greater democratization and associational life help businesses solve joint commitment and coordination problems by including several variables measuring institutional constraints, accountability, and media freedom from the Carnegie Democracy Index, developed under the Moscow Carnegie Center's Regional Monitoring Project. The Democracy Index incorporates expert evaluations of regional political development along ten dimensions of democratization (each on a 1 to 5 scale). I build an aggregate composite by adding the scores of three of the key dimensions capturing institutional constraints: the openness of political life (e.g. transparency), electoral competitiveness, and the strength of civil society. I also use a measure of media freedom produced by the same project, which categorizes regions on a scale of 1 to 5, with higher values indicating stronger independent media in the region. In the models below, I include these two predictors separately due to strong correlation between them.

Firms may also calculate the amount of expected benefits from adopting nonmarket strategies not only by the number of hands grasping for the spoils, but by the size of the pie itself. In states endowed with natural resources or rapidly growing economies, tax revenues and overall government spending may be higher. The potential payoffs from gaining access to the policymaking process rise markedly, expanding the number of actors engaged in rent-seeking activities (Robinson, Torvik, and Verdier 2006; Torvik 2002). Candidacy approximates a high-stakes tournament, where the probability of winning is low, but the payoffs are high due to vast sums of money at play in the region (Fisman, Schulz, and Vig 2012). Firms forego productivity-increasing activities to instead focus on other avenues to lobbying for the gains of the resource boom (Baland and Francois 2000). This influx of entrants into the fight for government spoils may increase the attractiveness of the direct strategy of holding political office, since the probability of other firms crowding out the bargaining process rises. I proxy for opportunities for rent-seeking by coding a dummy indicator for the presence of natural resources (oil, gas, and metal) in each region using data from the Russian Federal Agency for Subsoil Use.

Other firm-level control variables used include dummy variables for whether the firm is a municipal-level state-owned enterprise or a state / federal-level state-owned enterprise (Orbis),[19] dummy variables for whether firms imported or exported during the period (Orbis), the age of firm in logged years (Orbis), and a dummy variable for whether the firm has subsidiaries. I exclude all firms working in the financial intermediaries and insurance sectors, including banks, since they are regulated at the federal level, as well as all firms listed on national stock exchanges. At the regional level, I include measures of the logged total population and the level of urbanization in each locality (both taken from the Russian State Statistics Agency). I also control for the total volume of each sector for each region-year (logged) in order to produce more refined estimates of the effect of industrial concentration that are independent of industry size.

Descriptive Statistics

Which types of firms are connected to candidates running for elected office? I begin the analysis by first presenting some descriptive statistics of this phenomenon in Russia. Full summary statistics are presented in Table 3.1. The dataset includes 948,527 unique firms who were in a position to potentially run a candidate for office, 8,829 of which actually adopted the strategy. Though this amounts to roughly 1% of all eligible firms in Russia, the percentage of candidates to regional office that worked simultaneously for a private sector firm was 21%. The full correlation matrix for the predictors used in the regressions is presented in Table 3.2.

Of more interest are the differences between so-called 'Candidate Firms', or those whose leadership contended elections, and 'Non-Candidate Firms', which refrained from participating. I present summary statistics subset by these two groups in Table 3.3. Just looking at differences in means, firms that have directors

[19] State-owned enterprises (unitary enterprises) are governed at one of three levels in Russia: federal, state and municipal. They are 100% owned by the state and managed off-budget by the ministry to which their commerical activities are mostly closely related, with all profits going to the level of government that assumes responsibility for them (Sprenger 2010).

run for office are far larger in size (as measured by both the size of their assets and number of employees), have more subsidiaries, and are more likely to be engaged in importing and exporting activities. There may be evidence as well that older firms are more likely to run for office. I also break down the percentage of firms in each group according to their industry, as depicted in Figure 3.1. Stark differences appear based on this figure, first and foremost that firms engaged in basic retail and wholesale trade make up a far smaller percentage of the total among candidate firms than those not engaged in businessperson candidacy. On the other hand, firms engaged in manufacturing, mining and agriculture are all more heavily represented among candidate firms than non-candidate firms. This could be evidence that firms in sectors characterized by more asset specificity are more interested in sending representatives into elected office. Finally, in Figure 3.2, I plot the distribution of concentration measures across the sectors across Russia. The points represent the mean level of concentration for each sector across the regions included in the dataset, while the bars depict one standard deviation above and below that mean. We see that there is great variation across industries in Russia. The top four construction firms in each region on average accounting for roughly 35% of total output, while the top four mining firms are responsible for nearly 90% of output in their regions.

Empirical Strategy

Studying the full range of determinants of businessperson candidacy requires an empirical approach that takes into account variation at three levels of analysis: region, sector and firm. Individual firms are nested in groups: sectors and regions. Several variables capturing the importance of sectoral and institutional context therefore do not vary for each individual firm, while others do not vary over time because of the cross-sectional nature of expert evaluations. Fixed effects models, for example at the country level, are thus inadvisable. In addition, a key hypothesis to be tested pertains to between-sector variation with regard to concentration, which precludes the use fixed effects at this level. Because we cannot assume that the standard errors will be independent across individual firm observations, the primary strategy adopted here will incorporate multilevel modeling techniques. Multilevel modeling provides unbiased standard errors for our firm-level parameter estimates given the clustered nature of the data (Gelman and Hill 2006; Bryk and Raudenbush 1992). The lack of substantial variation over time across several of the key predictors (such as natural resource endowments) further necessitates a flexible approach at the group-level. Therefore, I only estimate firm-level coefficients as fixed, rather than random, across sectors and regions; the firm-level intercept is modeled as a function of random effects at the other levels of analysis. Intercepts are thus allowed to vary at the sector (54 units), region (82 units), and year level (eight units). The general form of the equation estimated is:

$$y_{ijkl} = \alpha + \beta^{'} F_i + \gamma^{'} S_j + \lambda^{'} R_k + \phi_j + \zeta_k + \theta_l + \varepsilon \tag{3.1}$$

where F represents firm-level determinants, S represents sectors-level determinants, R represents region-level determinants, ϕ represents sector-level random effects, ζ represents region-level random effects and θ represents year-level random effects. In two specifications, I substitute year-level fixed effects for year-level random effects since multiple regional legislative elections take place each year. The multilevel linear probability models are estimated using OLS through the lmer command from the lme4 R package.[20]

[20]Multilevel Poisson and logistic models failed to converge using the lmer command, most likely due to the difficulty of producing estimates using a large dataset at multiple levels of analysis.

3.6 Results

The various specifications for the multilevel models are presented in Table 3.4. The main models are estimated in Columns 1 and 2, with the only difference between the two being the substitution of the variable for press freedom for the composite measuring aggregate accountability (the two predictors are highly correlated). Columns 3 and 4 repeat the set of predictors as the first two models respectively, but include year fixed effects, instead of year random effects. In Columns 5 and 6, I employ the alternate measure of national party strength: the percentage of candidates running in plurality races that are affiliated with national political parties. The final four columns use two alternate outcome variables that restrict businessperson candidates to only 'serious' individuals, as measured by their electoral performance in the race. All point estimates have been standardized by centering covariates and dividing by two standard deviations; the function standardize() from the R package 'arm' was used. This allows for a comparison of all covariates, including those measured on a binary scale (Gelman 2008).

With regards to the factors determining the probability of politician shirking, we see that the level of sectoral concentration is positively correlated with firms interested in businessperson candidacy as non-market strategy. Across all the model specifications, the greater share of total sectoral output that is concentrated in the largest firms, the more likely firms from that sector will participate in elections. Stronger political parties on the other hand reduce the attractiveness of this strategy. When national parties (i.e. those bound by reputation risks over time) are more active in a region, businesspeople run for office at a lower rate, perhaps instead relying on lobbying these parties to gain political access. The point estimates on both measures of party strength – regional expenditures and candidate nominations – are statistically significant at conventional levels. The findings from these models provide strong evidence of both Hypothesis 1 and 2 that sectoral and party factors affect how firms evaluate the effectiveness of investing in businessperson candidacy.

Anecdotal evidence aligns with the statistical finding that firms' political strategies reflect the nature of the market competition they face. In Perm', firms rarely band together within a given sector to protect their individual interests; no mechanisms exist to organize this cooperation so every firm ends up lobbying their own individual interests.[21] Conflicts over agricultural subsidies (such as for wheat and potatoes) as well as over contracts for housing construction and communal services provision have divided delegates, pitting rival firms directly against one another.[22] A long-time employee of the Perm regional legislature cited debates over the level of taxation imposed on natural resources companies as especially divisive between deputies from different economic backgrounds; as competition for resources increased, she began to notice more and more businessperson entrants into candidate slates.[23] Competing firms support different political parties, something we will examine in greater detail in the next chapter, often because political parties have not developed the necessary procedures to adjudicate disagreements between members.[24] As businesspeople join opposing parties, these conflicts move behind the closed doors within the regional legislatures, such as a rivalry between two deputies representing construction firms specializing in housing construction that used different materials in Tomsk.[25] Failing to win a seat means that a firm cannot protect its interests, secure lucrative deals with other insiders and withstand attacks from competitors who have placed directors as deputies.[26]

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[21] Interview with Petr Panov, political scientist, Perm, Russia. October 3, 2013

[22] Interview with Valeriye Mazanov, editor of the Kompanion Journal, Perm, Russia. October 3, 2013

[23] Interview with Nina Bayandina, Deputy Head of the Administration of the Perm Regional Legislature, Perm, Russia. October 7, 2013

[24] Interview with Sergey Shpagin, professor, Tomsk State University, Tomsk, Russia. June 9, 2014

[25] Interview with Aleksey Scherbinin, political scientist, Tomsk State University, Tomsk, Russia. June 10, 2014

[26] Interview with Aleksander Semenov, professor, docent of the Ryazan' branch of the Moscow

The costs of mounting an electoral campaign also affect the likelihood of a firm running for office. We see fewer firms engaging in this strategy in poorer regions, here measured in Table 3.4 by annual gross regional product. Other measures of voter income, such as average income and GRP per capita, return similar results (not shown). Firms with more financial resources available are also more likely to have a representative run for office. The effects of total assets are larger and significant in all models. Similarly, businessperson candidacy is more likely among firms that have subsidiaries (another measure of size and geographic spread of activities), that are older, and are engaged in importing and exporting activities. Firms working in larger sectors (by volume of revenue) are also more interested in this strategy, presumably because the gains of achieving access to policymaking are greater. Regional and federal-level state-owned enterprises are also more likely to see their directors run for office, while those at the municipal-level see a lower probability. Because of the governance hierarchy, municipal SOEs do not see the value in expending resources to win at a higher level. Comparing across the point estimates, we also see that firm size, total sector turnover and regional GRP are the strongest predictors of businessperson candidacy. Measures of oligopolistic concentration and party strength are weaker but still statistically significant.

Several factors previously identified in the literature as affecting businessperson candidacy appear to play less of a role in Russia during this period. The point estimates on national resource endowments are positive but not statistically significant in any of the specifications. One reason for this divergence from the results in Gehlbach, Sonin, and Zhuravskaya (2010), who also study businesspeople candidates in Russia but in earlier years, is that the federal government asserted more control over the exploitation of oil and gas during the years covered in this study. The federal transfer system set up to redistribute wealth between the regions may

State Art and Cultural University, Ryazan, Russia. November 18, 2013 have decreased interest in using regional legislatures to access massive government rents. Greater democratization may be linked to greater interest in businessperson candidacy, an opposite finding to that in Gehlbach, Sonin, and Zhuravskaya (2010). Businesspeople may actually be drawn to strong political institutions because they provide more opportunities to affect the rules and regulations that govern the business environment. More autocratic settings in contrast may be marked by a more closed policymaking process whereby representative institutions play a lesser role and efforts to gain political influence are better served by lobbying, instead of direct participation.

Finally in Figure 3.3, I plot the sector-level intercepts and standard errors from the linear multilevel model presented in Column 1 of Table 3.4. Here I used the NACE 2 primary sector code instead of the two-digit OKVED sector code to ease presentation. In general we see a strong relationship between the level of asset specificity of a sector and whether member firms are likely to opt for businessperson candidacy. Sectors such as agriculture, mining, and utilities see a greater likelihood, while those in trade, transportation, hospitality, communications and construction are less likely to run candidates. However, exceptions abound: firms in the very immobile sectors of waste management and manufacturing are not more likely to run candidates, while those in several types of health and arts and recreation are more likely to put forward candidacies. However, state-owned enterprises are more like to work in the latter two sectors, so the positive relationship noted could be picking up ownership more than sector.

3.7 Conclusion

By jointly modeling firm-level, sector-level, and region-level determinants, this chapter finds that both economic competition and weak political parties create incentives for firms to put forth candidates to elected office. Under these conditions, more conventional strategies for achieving policymaking influence become less effective since politicians see few constraints to defecting from informal arrangements to represent firms' political interests. Not all firms however can afford the resource-intensive strategy of placing representatives in political institutions such as parliaments: substantial resources as well as a lower average level of voter income enable companies to afford the cost of running for office, either by funding an electoral campaign or buying a seat on the party list.

The theory developed above builds on a variety of literatures that argues that economic competition has a powerful impact on corporate strategy. Firms encounter their rivals in the political market, just as they do in the economic market. The limited availability of policy benefits increases competition among various interest groups with interests in the political sphere (Hillman and Hitt 1999). Numerous scholars have approached the distribution of corporate policy as a zero-sum game: certain sectors and firms benefits from targeted policies, while others lose (Bonardi, Hillman, and Keim 2005). The particularistic gains of one firm or sector may incentivize rivals to act opportunistically in order to block advances. Economic competition breeds political competition in the pursuit of profits that only policies can unlock. As competition intensifies, the demand for limited dividends increases, especially with regard to an institution such as a legislature with a fixed amount of goods (seats) offered. Subsequently, the failure of firms to cooperate in the political arena also may have implications for individual payoffs. The more opposing economic interests that are represented in politics, the harder it is for any one firm to achieve its own narrow policy ends.

Table 3.1: Summary Statistics

Statistic	N	Mean	St. Dev.	Min	Max
Firm had Businessperson Candidate	1,165,296	0.01	0.09	0	1
Firm had Strong Businessperson Candidate (5%)	1,165,296	0.01	0.09	0	1
Firm had Strong Businessperson Candidate (10%)	1,165,296	0.01	0.08	0	1
Total Assets (thous rub.)	1,157,748	89.63	4,226.01	0.00	2,793,132.00
Firm Age	1,165,296	5.42	6.13	−8	307
Importer	1,165,296	0.09	0.28	0	1
Exporter	1,165,296	0.06	0.23	0	1
Number of Subsidiaries	1,165,296	0.18	1.48	0	871
Municipal State-Owned Enterprise	1,165,296	0.02	0.13	0	1
Regional / Federal State-Owned Enterprise	1,165,296	0.01	0.08	0	1
Total Sector Revenue (logged)	1,165,171	18.33	2.61	1.39	23.32
Sectoral Oligopoly	1,163,931	0.34	0.21	0.08	1.00
Regional GRP (logged)	1,165,296	13.64	1.45	8.13	15.78
Total Population (logged)	1,165,296	15.12	0.91	10.64	16.24
Level of Urbanization	1,165,296	0.82	0.15	0.00	1.00
Natural Resources	1,165,296	0.29	0.45	0	1
National Party Strength - Expenditures	1,165,144	17.75	1.39	11.90	20.22
National Party Strength - Nominations	998,250	0.65	0.18	0.15	0.98
Regional Press Freedom	1,164,646	3.55	0.90	1	5
Aggregate Accountability	1,164,646	10.29	1.97	4	14

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13))	(14)	(15)	(16)
(1) Total Assets (logged)																
(2) Firm Age (logged)	0.31*															
(3) Importer	0.27*	0.11*														
(4) Exporter	0.22*	0.12*	0.44*													
(5) Number of Subsidiaries	0.26*	0.20*	0.15*	0.14*												
(6) Regional / Federal State-Owned Enterprise	0.07*	0.09*	0.01*	0.01*	0.04*											
(6) Municipal State-Owned Enterprise	0.06*	0.09*	-0.03*	-0.03*	0.00*	-0.01*										
(8) Total Sector Revenue (logged)	0.11*	0.13*	0.05*	0.09*	0.06*	0.05*	0.10*									
(9) Sectoral Oligopoly	-0.06*	-0.19*	0.02*	-0.04*	-0.03*	-0.07*	-0.14*	-0.47*								
(10) Regional GRP (logged)	-0.05*	-0.11*	0.01*	-0.04*	0.02*	-0.04*	-0.11*	-0.29*	0.75*							
(11) Total Population (logged)	-0.09*	-0.13*	0.01*	-0.04*	0.02*	-0.04*	-0.10*	-0.34*	0.73*	0.92*						
(12) Level of Urbanization	-0.08*	-0.13*	0.02*	-0.03*	0.02*	-0.04*	-0.09*	-0.26*	0.65*	0.81*	0.74*					
(13) Natural Resources	0.06*	0.04*	-0.02*	0.02*	-0.02*	0.00*	0.04*	0.12*	-0.24*	-0.22*	-0.24*	-0.24*				
(14) National Party Strength - Expenditures	0.08*	0.00	0.01*	-0.03*	0.01*	-0.03*	-0.08*	-0.08*	0.48*	0.64*	0.49*	0.40*	-0.04*			
(15) National Party Strength - Nominations	0.12*	0.05*	0.01*	-0.02*	0.01*	-0.03*	-0.06*	0.02*	0.27*	0.38*	0.20*	0.15*	-0.10*	0.72*		
(16) Regional Press Freedom	-0.03*	-0.08*	0.01*	0.00	0.01*	-0.03*	-0.05*	-0.17*	0.40*	0.51*	0.51*	0.64*	0.22*	0.31*	0.06*	
(17) Aggregate Accountability	0.02*	-0.03*	0.02*	0.02*	0.00	-0.03*	-0.02*	-0.10*	0.15*	0.20*	0.21*	0.37*	0.30*	0.18*	-0.02*	0.81*

This table presents correlation coefficients for the predictors used in the main table analysis. *p<0.001

Table 3.2: Correlation Matrix

Table 3.3: Firm Summary Statistics Subset by Businessperson Candicacy

	Candidate Firms	Non-Candidate Firms
(1) Number of Unique Firms	9,236.0	937,595.0
(2) Importer (%)	0.24	0.09
	[0.43]	[0.28]
(3) Exporter (%)	0.17	0.06
	[0.37]	[0.23]
(4) Number of Subsidiaries	1.11	0.17
	[3.21]	[1.45]
(5) Municipal State-Owned Enterprise (%)	0.03	0.02
	[0.17]	[0.13]
(5) Regional / Federal State-Owned Enterprise (%)	0.02	0.01
	[0.15]	[0.08]
(6) Firm Age	10.56	5.38
	[14.27]	[5.99]
(7) Total Assets	749,077.42	83,630.31
	[7,898,666.52]	[4,177,343.99]
(8) No. Employees	233.11	44.25
	[1,004.58]	[416.33]

Standard deviations in brackets. Total assets is measured in thousands of dollars. The columns Candidate Firms and Non-Candidate Firms group firms according to whether each's director ran for office in a regional legislative election.

Figure 3.1: Sectoral Distribution of Candidate Firms

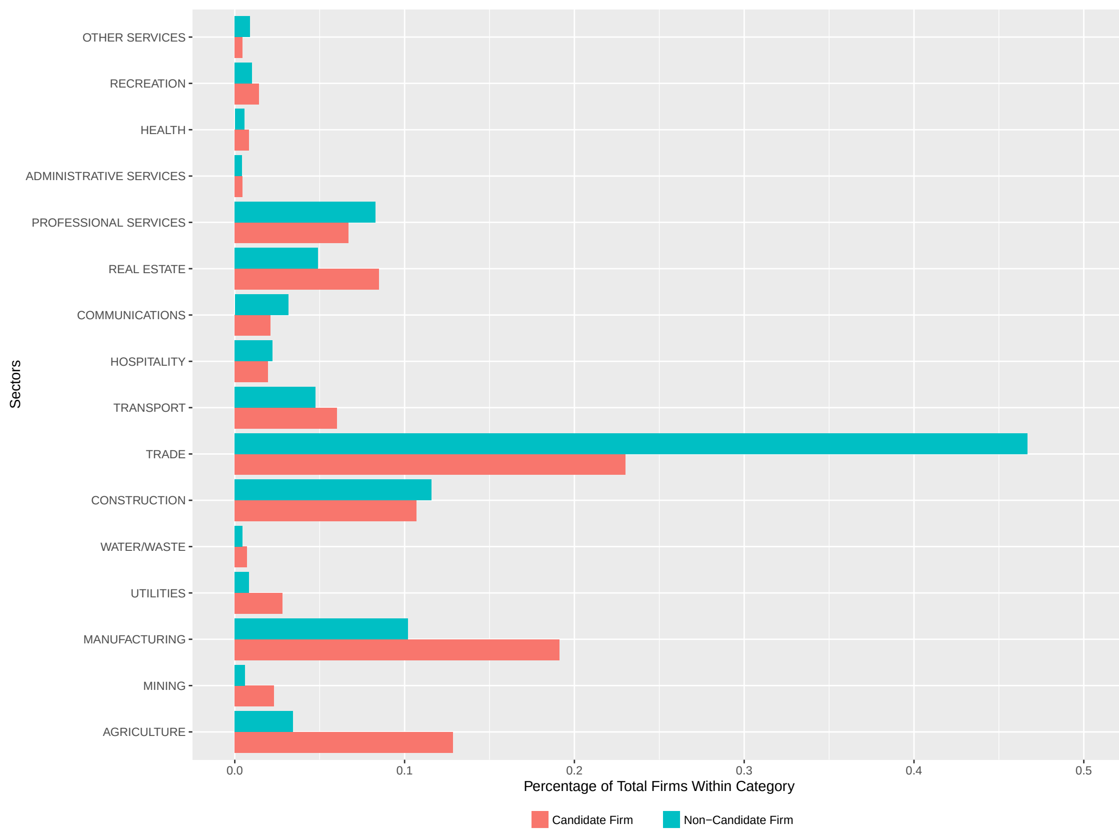


Figure 3.2: Sectoral Concentration in Russia

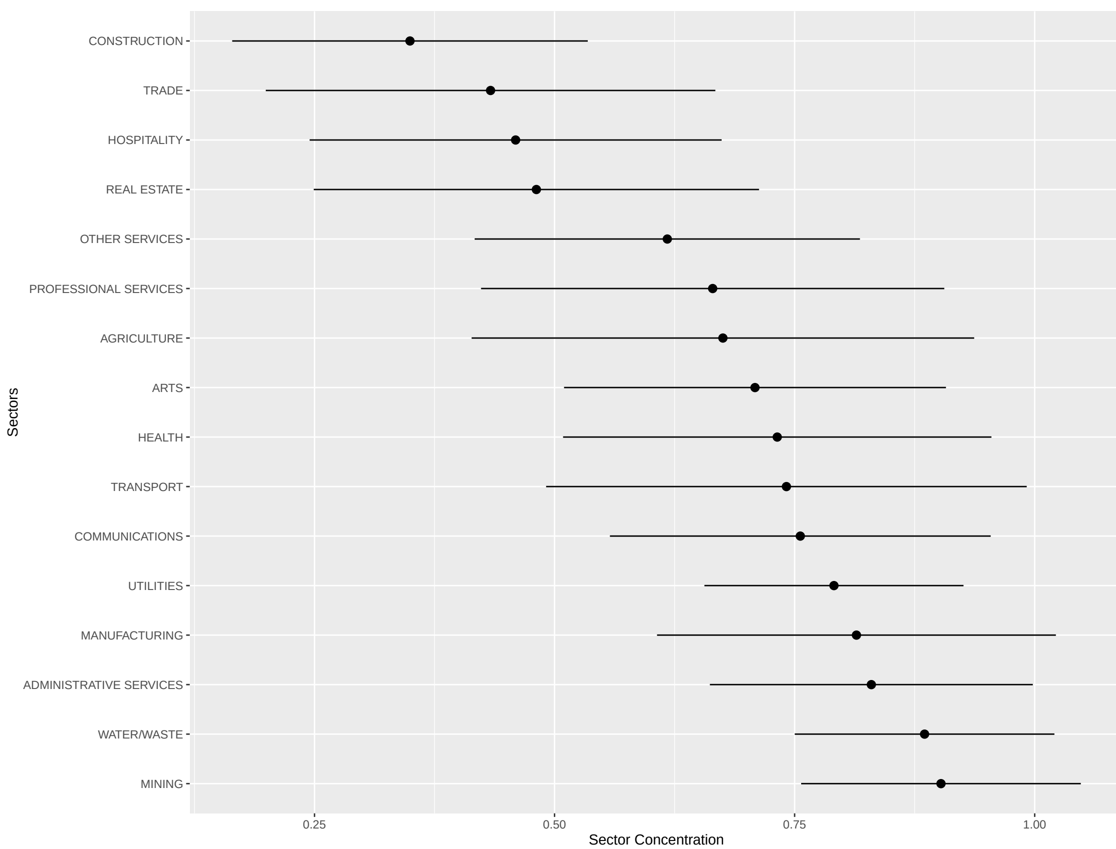
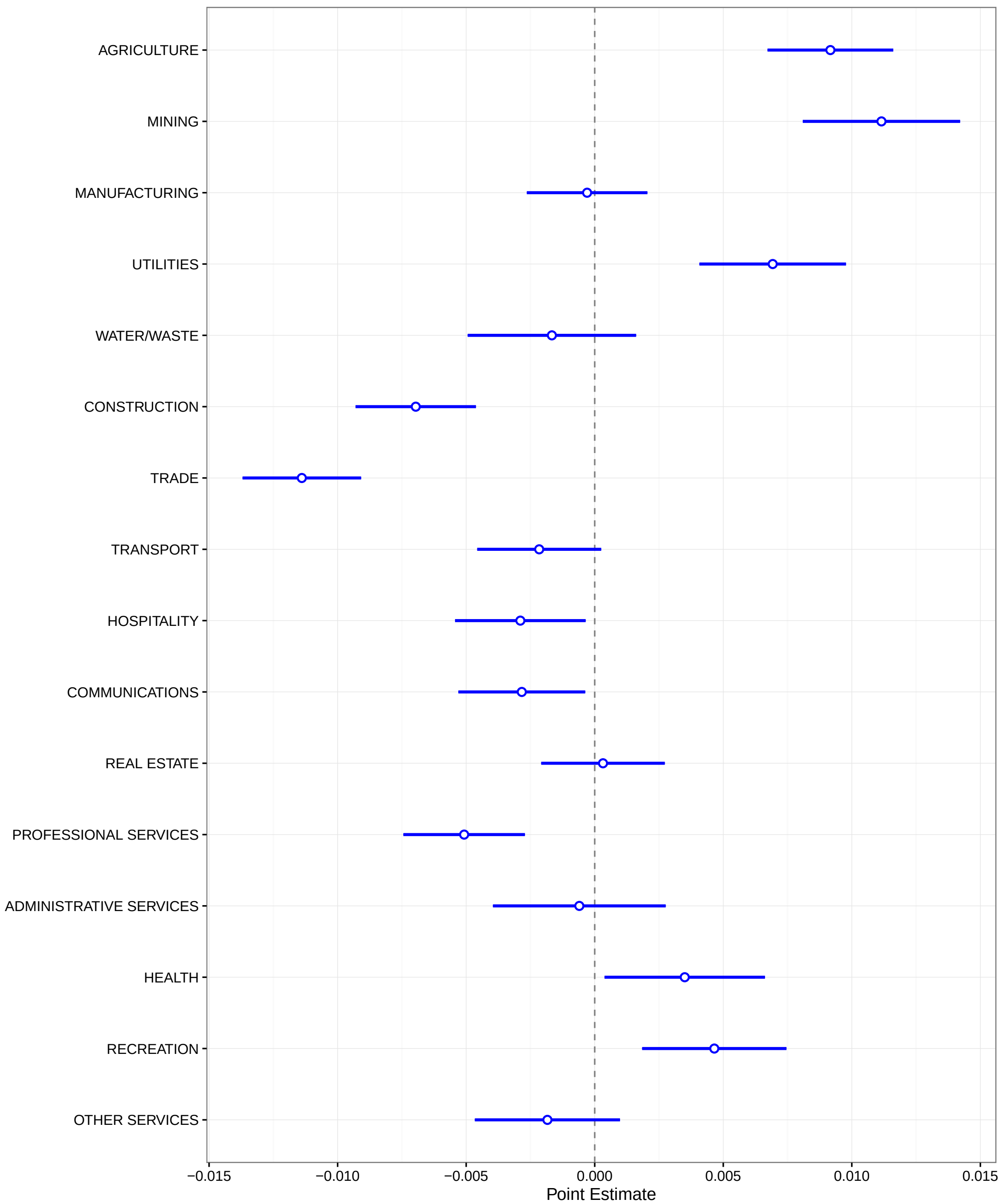


Table 3.4: Determinants of Businessperson Candidacy

	All Businessperson Candidates						Candidates - >5%		Candidates - >10%	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Firm-Level Predictors										
Total Assets (logged)	0.010***	0.010***	0.010***	0.010***	0.011***	0.011***	0.009***	0.009***	0.008***	0.008***
	(0.0002)	(0.0002)	(0.0002)	(0.0002)	(0.0002)	(0.0002)	(0.0002)	(0.0002)	(0.0002)	(0.0002)
Firm Age (logged)	0.004***	0.004***	0.004***	0.004***	0.005***	0.005***	0.004***	0.004***	0.004***	0.004***
	(0.0002)	(0.0002)	(0.0002)	(0.0002)	(0.0002)	(0.0002)	(0.0002)	(0.0002)	(0.0002)	(0.0002)
Importer	0.007***	0.007***	0.007***	0.007***	0.008***	0.008***	0.007***	0.007***	0.006***	0.006***
	(0.0004)	(0.0004)	(0.0004)	(0.0004)	(0.0004)	(0.0004)	(0.0003)	(0.0003)	(0.0003)	(0.0003)
Exporter	0.005***	0.005***	0.005***	0.005***	0.007***	0.007***	0.005***	0.005***	0.005***	0.005***
	(0.0004)	(0.0004)	(0.0004)	(0.0004)	(0.0005)	(0.0005)	(0.0004)	(0.0004)	(0.0004)	(0.0004)
Number of Subsidiaries	0.008***	0.008***	0.008***	0.008***	0.009***	0.009***	0.008***	0.008***	0.007***	0.007***
	(0.0002)	(0.0002)	(0.0002)	(0.0002)	(0.0002)	(0.0002)	(0.0002)	(0.0002)	(0.0002)	(0.0002)
Regional/Federal SOE	0.008***	0.008***	0.008***	0.008***	0.008***	0.008***	0.005***	0.005***	0.004***	0.004***
	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)
Municipal SOE	−0.005***	−0.005***	−0.005***	−0.005***	−0.006***	−0.006***	−0.005***	−0.005***	−0.005***	−0.005***
	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)
Sector-Level Predictors										
Total Sector Revenue (logged)	0.008***	0.008***	0.008***	0.008***	0.008***	0.008***	0.008***	0.008***	0.008***	0.008***
	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)
Sectoral Oligopoly	0.002***	0.002***	0.002***	0.002***	0.001***	0.001***	0.001***	0.001***	0.001***	0.001***
	(0.0003)	(0.0003)	(0.0003)	(0.0003)	(0.0003)	(0.0003)	(0.0003)	(0.0003)	(0.0002)	(0.0002)
Region-Level Predictors										
Regional GRP (logged)	−0.027***	−0.031***	−0.034***	−0.037***	−0.039***	−0.039***	−0.018***	−0.021***	−0.013***	−0.014***
	(0.004)	(0.004)	(0.005)	(0.005)	(0.005)	(0.005)	(0.004)	(0.004)	(0.003)	(0.003)
Total Population (logged)	−0.0004	−0.001	0.004	0.002	0.002	0.001	−0.004	−0.005	−0.005*	−0.006*
	(0.004)	(0.004)	(0.004)	(0.004)	(0.004)	(0.004)	(0.003)	(0.003)	(0.003)	(0.003)
Level of Urbanization	−0.003	−0.001	−0.002	−0.0005	0.002	0.001	−0.003	−0.002	−0.003	−0.003
	(0.003)	(0.004)	(0.004)	(0.004)	(0.004)	(0.004)	(0.003)	(0.003)	(0.003)	(0.003)
Natural Resources	0.004	0.003	0.005	0.004	0.006	0.005	0.003	0.002	0.002	0.001
	(0.003)	(0.003)	(0.003)	(0.004)	(0.004)	(0.004)	(0.003)	(0.003)	(0.002)	(0.002)
National Party Strength - Expenditures	−0.002***	−0.002***	−0.002***	−0.002***			−0.002***	−0.002***	−0.002***	−0.002***
	(0.001)	(0.001)	(0.001)	(0.001)			(0.001)	(0.001)	(0.001)	(0.001)
National Party Strength - Nominations					−0.002**	−0.001*				
					(0.001)	(0.001)				
Regional Press Freedom	0.0002		0.001		0.0003		−0.0001		−0.001	
	(0.001)		(0.001)		(0.001)		(0.001)		(0.001)	
Aggregate Accountability		0.006***		0.007***		0.004***		0.005***		0.003***
		(0.001)		(0.001)		(0.001)		(0.001)		(0.001)
Observations	1,155,648	1,155,648	1,155,648	1,155,648	990,310	990,310	1,155,648	1,155,648	1,155,648	1,155,648
Log Likelihood	1,102,568	1,102,584	1,102,539	1,102,557	902,026.900	902,031	1,176,470	1,176,482	1,241,758	1,241,762
Akaike Inf. Crit.	-2,205,095	-2,205,127	-2,205,026	-2,205,061	-1,804,014	-1,804,022	-2,352,900	-2,352,924	-2,483,476	-2,483,485
Bayesian Inf. Crit.	-2,204,856	-2,204,888	-2,204,715	-2,204,750	-1,803,778	-1,803,786	-2,352,661	-2,352,685	-2,483,236	-2,483,245

All columns use multilevel linear probability models estimated using OLS; all effects standardized by centering and dividing by two standard deviations. All columns except Columns 3 and 4 include sector-level, region-level, and year-level random effects; Columns 3 and 4 include year-level fixed effects and sector-level and region-level random effects. Dependent variable in Columns 1-6 is a binary indicator for whether a firm was connected to a businessperson candidate, i.e. had a director run for office in a regional legislative election. Dependent variable in Columns 7-8 limits the sample to 'serious' businesspersion candidates who received more than 5% of the plurality vote or held one of ten top spots on the party list. Dependent variable in Columns 7-8 limits the sample to even more 'serious' businesspersion candidates who received more than 10% of the plurality vote or held one of five top spots on the party list. The number of observations drops in Columns 5 and 6, due to missingness in the variable National Party Strength - Nominations since some regions use a proportional representation system exclusively. *p<0.1; **p<0.05; ***p<0.01

Figure 3.3: Candidacy Broken down by Sector: Random Effects



Chapter 4

Chapter 4: Party and Ballot Choice Among Businesspeople

Once a businessperson decides that running for office is the best strategy to advance their firm's interests, difficult decisions await about how best to achieve that aim. In this chapter, I analyze the two main choices relevant to the mounting of electoral candidacy in the Russian context. First, what ballot will a businessperson candidate run on? The mixed member system in place in the majority of Russian regional legislatures leaves all candidates, including those with business ties, with a number of options. Businessperson candidates can first 'go-it-alone' by assuming individual responsibility for contesting a plurality race in a single-member district. Traditionally, campaigns in these districts receive little to no material support from political parties and must be entirely self-financed. Alternately, candidates can try to secure a spot on some political party's list, hoping the party wins enough votes through the proportional representation ballot that his or her spot gets called into the legislature. In some instances, both options are available, with those candidates losing their plurality races given a second choice to reach office through a sufficiently high enough spot in the proportional representation system. Scholars have interpreted the main advantage of dual listing as a kind of 'insurance' that can dramatically increase the probability of winning a seat for politicians (Krauss, Nemoto, and Pekkanen 2012).

The second decision pertains to party affiliation: which party, if any, will a businessperson candidate run as a member of? During the period analyzed in this project (2004-2011), Russia experienced the rise of a dominant ruling party, United Russia, which capitalized on the popularity of its national leader Vladimir Putin to capture a majority in most regional legislatures around the country. But the emergence of a ruling party regime did not spell a complete death for the opposition: although significant consolidation occurred as the result of reforms to electoral legislation, several national parties consolidated support and retained strong branches in numerous regions. The degree of their true opposition to ruling party governance varied considerably among regional legislatures, but at no time during this decade did United Russia achieve complete nominal party control over any convocation. Lastly, candidates in single-member districts could also run as independents, forgoing any party support for perceived autonomy and flexibility once in office.

Both decisions have significant consequences on a candidate's probability of getting elected as well as his or her ability to influence policies that affect their connected firm. For example, the method by which deputies get elected is believed to influence the degree to which factions and parties can constrain their behavior once inside a legislature (Tavits 2009; Thames 2005). Deputies from single-member districts may enjoy more autonomy in pushing for their own narrow interests, since their electoral success is not contingent on toeing the party line. With regards to businessperson candidates, a SMD seat may allow for more uninhibited and open lobbying of firm interests as political parties wield less power to curb self-serving deputies that need only win the votes their geographic constituents and not the nod of party leaders. In this chapter, I provide empirical evidence that businesspeople prefer to run in single-member districts for these very reasons.

The discussion in this chapter also improves our understanding of the importance of formal institutions in competitive authoritarian regimes (Gandhi and Lust-Okar 2009; Barberá 2013; Ferree, Powell, and Scheiner 2014). Electoral rules, such as those allowing candidates to choose between ballots, structure how various individuals are drawn into politics, political parties secure financing and build capacity, and special interests are represented in policymaking circles. Below I show that the various factors influencing ballot and party choice have clear effects on the types of firms that get involved in politics. Firm characteristics matter critically for not only whether businesspeople seek office, but also how they go about doing so. Existing research argues that proportional representation systems may lead to greater corruption since the interests of political parties with agenda-setting power and business lobbies are more closely linked (Yadav 2011). In contrast, because businessperson candidates indeed prefer single-member districts, we might expect the opposite result: plurality electoral systems should attract a qualitatively different set of candidates and personalities to run for office than proportional representation-based ones and may result in increased rent-seeking on the part of the elected officials themselves. When business achieves direct access to legislative bodies through candidates, the nexus created by PR systems between lobbies and parties may lose its importance.

Finally, this chapter speaks to debates about how economic interests are represented in political institutions: do rival businesses converge in support of one set of political actors or does political posturing reflect underlying market competition? I show evidence that at least with regard to businessperson candidates, politics is just another arena for direct competitors to protect their interests against one another. Unlike business or trade associations, political parties appear to have fewer levers to bring together disparate or even competing firm interests under one roof. One consequence is that greater economic competition over time may actually lead to more diverse and even stronger political institutions within society. If powerful economic elites cannot coordinate through a single political party, then their incentives are to build opposing ones, potentially altering the party system over time.

In support of these claims, I present analysis of the factors that influence these two key choices for businessperson candidates in Russia, along the way drawing on first-hand interviews with participants that illuminate the often times unsavory procedures by which candidates build their electoral campaigns. I approach the decision-process through a cost-benefit analysis that mirrors the work actually done by candidates with assistance from paid political consultants who crunch the numbers for a firm about the optimal way to win a seat in office. Seeing that scholars do not have access to the transcripts of these conversations (or the data used), I instead use observational data about the final ballot and party choices firms that put forth candidates make in order to test hypotheses about how these trade-offs are evaluated. The dataset on businessperson candidates in Russia is the same from the previous chapter, but here I look only at firms that were connected to candidates since they alone expressed preferences on both ballot and party choice.

4.1 Theoretical Arguments

Ballot choice

Considerable attention has been paid to how candidates make choices about ballots and candidate slates, mainly from analysis of countries utilizing mixed-member systems, such as Russia and other countries in the former Communist bloc.[1] There is

[1] Thames (2005) analyzes differences between three post-communist electoral systems (Hungary, Russia, and Ukraine), noting that West Germany, Italy, New Zealand, Mexico, Israel, Venezuela, Bolivia, and Japan had utilized a mixed-member system in the past. According to the Institute for Democracy and Electoral Assistance (IDEA), which collects data on electoral systems worldwide, only eight countries as of 2015 used a mixed-member system to elect representatives to national-level legislatures. Institute for Democracy and Electoral Assistance, "Countries Using MMP Electoral System for National Legislature." http://www.idea.int/esd/type.cfm?electoralSystem=MMP (accessed

some variation among Russian regions in terms of the specific legislation regulating elections to Russian regional legislatures, but most adopt a mixed-member system. Lyubarev (2011) contains the most detailed and comprehensive overview of the laws across the regions. Up until 2005, most regional legislatures in the Russian Federation had an equal number of plurality and party-list deputies, with only a handful of regions having a slightly larger proportion of legislators from the latter category. Since then, eleven regions have moved over to a complete proportional representation system, many in line with a national-level law to move the national-level Russian State Duma to a full party list format in 2007. The majority (70%) of convocations under study in this dissertation use an electoral threshold of 7% for parties to win seats in a legislature, with 45 using a bar of less than 7% and only one using a threshold of 10%. All but three regional legislatures in the dataset used a closed-list system, whereby voters only select parties and not individual candidates on each party's list. Only one regional legislature requires candidates from single-member districts to win an absolutely majority; plurality winners took seats in the rest.

I argue that *ceteris paribus*, businesspeople prefer to occupy deputy seats from single-member districts because of the independence and localized autonomy such a seat provides. Substantial research has found that the way legislators win seats, either through the proportional representation system or a plurality race, can have sizable effects on their later behavior while in office. This so-called 'mandate divide' results in legislators elected from single-member districts focusing on issues closer to the constituents who directly elected them (i.e. those geographically located in their districts), while those winning office through a party list tend to concentrate on more national issues (Thames 2005; Sieberer 2010). These differences in behavior are accentuated when political parties are weaker and individual deputies are granted

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more autonomy from the party to legislate as they personally see fit. The case of Russia fits this pattern, where at least at the national level, the mixed-member system engenders a modest increase in defection among SMD representatives from the official faction line (Kunicova and Remington 2008). In addition, ballot type can also affect how leadership posts are distributed among deputies, with SMD deputies more likely to take on positions related to distributive demands with direct effects on their electoral prospects (Pekkanen, Nyblade, and Krauss 2006).

Because businesspeople in Russia are running for office most often to promote their private firm interests, representing a single-member district and bypassing any strenuous commitments to a political party allows for more flexibility in voting behavior. In general, managers of enterprises have stronger connections to their districts than other types of politicians (Thames Jr 2001), as often they are one of the major employers and contributors to the local tax base. Tavits (2009) makes the broader argument that these strong local ties enable politicians to capitalize on their own personal reputation and act as mavericks within a parliamentary body. Less dependent on the party for their political future and wielding additional career options outside the partisan system, this type of locally connected politician draws support from a nonpartisan electoral base to act more individualistically with respect to their lawmaking duties. This autonomy makes it easier to pursue narrow firm-level interests that might be blocked or overruled by party leaders not wishing to allow such self-centered lawmaking.

The primary limiting factor in reaching a legislature through a single-member district for any candidate is clearly cost. Running in a single-member district simply requires more resources. In some political systems, affiliating with a political party can help defray the expenses of plurality race. Strong party organizations control the nominating system, largely through primaries, and then supplement direct contributions to candidates with wider party resources, ranging from cash to advertising time and paid, experienced agitators to mobilize on behalf of party members. On the other hand, in Russia and elsewhere, candidates in single-member districts are largely left to their own devices, regardless of their party membership. Candidates need to draw on private electoral funds to personally pay for their varied electoral expenses and collect the required number of signatures in order to register their candidacies.[2] Interviews with candidates in Tomsk and Perm revealed that these politicians are required to raise nearly all of their campaign cash individually, and even pay for membership in a party to help bolster their candidacy.[3] This drives businesspeople to seek the lowest cost races: where there are fewer electoral competitors, the cheaper it will be to win the election.[4] Plurality races become akin to the all-pay auctions present in the Egyptian system, as elites invest their own private resources into elections in order to signal their loyalty to the governing regime (Blaydes 2011). It should be noted that candidate must self-finance in a number of developed democracies as well. The Comparative Candidates Survey of over 8,000 candidates to national parliaments in 18 countries from 2005-2013 revealed that candidates drew on their own personal funds to pay for 47% of their campaign expenses, with party contributions covering 32% and donations covering just 21% (CCS 2015).[5] We should expect then that firms with greater financial resources will be more likely to choose single-member district races over the proportional representation list.

[2]Interview with Vasiliy Yeremin, former deputy of Tomsk Regional Duma, Tomsk, Russia. June 10, 2014

[3]Interview with Vasiliy Semkin, businessman and deputy of Tomsk Regional Duma, Tomsk, Russia. June 11, 2014; interview with Anton Tomachev, businessperson, Perm, Russia. October 8, 2013.

[4]Interview with Oleg Borisenko, political technologist, Perm, Russia. October 7, 2013

[5]The countries surveyed were Australia (2007, 2010), Austria (2008), Belgium (2010), Canada (2008), Czech Republic (2006), Denmark (2011), Estonia (2011), Finland (2007, 2011), Germany (2005), Greece (2007), Hungary (2010), Iceland (2009), Ireland (2007), Italy (2013), Netherlands (2006), Norway (2009), Portugal (2009, 2011), Romania (2012), Sweden (2010) and Switzerland (2007, 2011).

Hypothesis 5 *Firms with greater financial assets will be more likely to run in single-member districts.*

In the last chapter, we also saw that the cost of elections in Russia can depend on the financial standing of voters. The costs of purchasing television airtime, printing and distributing flyers, arranging transportation to the polls, and paying consultants and campaign staffers are all closely correlated to the average income in a given region. Because many citizens are not sufficiently persuaded by a politician's ideological preferences or policy goals, material handouts, such as cash or foodstuffs, are often used to entice electoral support. Since candidates in single-member districts shoulder all of these expenses themselves, the appeal of this route into office will diminish when the costs of getting elected outweigh the expected private benefits. Where voters are wealthier and the economy is more developed, other avenues of influencing politics become more attractive.

Hypothesis 6 *Businesspeople are more likely to run in single-member districts in poorer regions.*

Some costs can be defrayed by candidates' other intangible assets, such their ability to cultivate a personal vote among their constituents. Money need not be spent informing and winning over voters if a politician has been deeply active in the local economy and community for a long period of time. One indicator of the strength of the local tie is the number of employees that a politician's firm has in a district: the more people directly working for the candidate, the more likely they can be mobilized cheaply to support them during a plurality race. Workplace mobilization during elections is a key asset for politicians at multiple levels in Russian politics, with a large portion of the electorate reporting having been tapped by their managers and supervisors to act politically around election time (Frye, Reuter, and Szakonyi 2014). Next, name recognition among voters may simply be a function of how long a candidate has been active in local politics. Older businesspeople candidates can utilize their longevity to build a personal base of support largely independent of cyclical electioneering.

Hypothesis 7 *Firms with larger workforces will be more likely to run in single-member districts.*

Hypothesis 8 *Firms led by older candidates will be more likely to run in single-member districts.*

The downside to the immense autonomy provided by a single-member district is that candidates are individually responsible for winning their own elections. Contrary to some popular accounts of the Russian election system, considerable levels of uncertainty still plague candidates at the regional level and unexpected electoral results are a common occurrence, particularly in single-member districts (Panov and Ross 2013).[6] One avenue for reducing that risk and increasing the probability of getting into office is to bid for a spot on the list of a political party. Which party is most attractive can depend on a variety of factors which I explore in more depth below, ranging from an ideological affinity for the party's goals to a much more cynically strategic approach that prioritizes getting into the legislature at any costs over any underlying set of policy preferences. For all their weaknesses, parties do play a important role as gatekeepers during elections in Russian regions due to the mixed-member system that allots at least half the seats in each regional legislature to candidates from party lists. Although political parties themselves suffer from a variety of developmental problems (such as inconsistent ideologies and unstable member rolls), institutionally the electoral system ensures that parties will be in a position to allocate seats to individual candidates and command authority

[6] Take the very recent example of a Communist governor unexpectedly winning in Irkutsk in 2015 (Zavadskaya et al. 2015).

from voters. Businessperson candidates without the either material or personality-driven resources to contest in a single-member district alternately have the option to try to land on a party list.

Getting onto a party list does not come for free or come without its own set of risks. Interviews with several candidates uncovered that the going rate for a competitive spot on a regional list can cost up to $200,000.[7] Contributions do not end after the voting booths close. Parties can credibly continue to demand contributions from elected candidates long after a parliamentary convocation has begun, since politicians from the party list are now dependent on the party for their careers.[8] Parties also vary widely in their popularity, with some easily surpassing an electoral threshold and winning seats in abundance and others barely skirting through. Businessperson candidates without substantial wealth may only be able to afford lower spots on the list and be left outside the parliament once the post-electoral lottery is complete. Some parties use midterm resignations to overcome the problem of limited capacity.[9] Deputies are given half-terms in office, leaving their seat after two or three years to make room for a candidate who narrowly missed a spot during the previous election. Rotation increases the number of businesspeople that can be courted and assuages concerns about spots being bought but never received because of electoral difficulties. Therefore, candidates on the party list do run the risk of losing their investment (i.e. their bid for a spot), but that uncertainty is built into the price they pay, whereas in a single-member district, their payoff is much more uncertain. That said, the cost of buying a spot on a party list can still pale in comparison to singlehandedly paying the costs of an electoral campaign, which I go

[7] Interview with Valeriy Otsipov, deputy of Tomsk Regional Duma, Tomsk, Russia. June 9, 2014

[8] Interview with Natalia Zubarevich, professor of geography at Moscow State University, Moscow, Russia. March 11, 2013

[9] Interview with Aleksander Semenov, professor, docent of the Ryazan' branch of the Moscow State Art and Cultural University, Ryazan, Russia. November 18, 2013

into further detail on below.

As discussed above, dual-listing in both a single-member district and on a party list is another strategy to overcome the uncertainty of competitive elections. In the models below, I interpret candidates who occupy a spot in both systems as hedging their bets and thereby falling in between those that squarely choose either the single-member district or the party list route. Though we might expect firms that dual-list to be the largest in terms of size and reach since they are paying for access on two ballots, these are also companies that do not have the same degree of personal vote support or workplace mobilization opportunities to concentrate their campaigning efforts solely in the single-member districts. The middle way of dual-listing acts as an insurance policy for those firms not confident in contesting only in a single-member district, but with the resources to test several different avenues to get into power.

Party Choice

The other pivotal choice that businesspeople need to make while constructing their campaign is whether to affiliate with an established political party, and if so, which one. The extent of political party strength in Russia, especially at the regional level, has long been a bone of contention among scholars. On one hand, individual-level surveys in the immediate post-Soviet era demonstrated deep partisanship and strong attachment to specific political parties among voters (Brader and Tucker 2001). Scholars working at the candidate and party-level found a party system much more fragmented during the period. Independent candidates regularly predominated slates in single-member districts, and large financial-industrial groups operated as more flexible substitutes for political parties (Hale 2005). In an impressive work on electoral systems and candidacy at the regional level in the late 1990s, Smyth (2005) identifies a party system stymied by the availability of alternative resources for candidates and the overall weakness of party labels and discipline.

A turning point appears to be concerted efforts by the first Putin presidential administration in the early 2000s to construct a credible ruling party called United Russia to help govern the vast country, bring obstinate regional governors into line, and smooth out the succession of power to the new president (Reuter and Remington 2009). The first United Russia faction emerged in the State Duma in 2003, alongside a nationwide strategy to co-opt and recruit powerful governors to join and re-assert the importance of party membership in promotion decisions at multiple levels (Reuter 2016). In addition to consolidating power into a party of power, the new administration also took a number of steps to limit the proliferation of smaller political parties across the country and undercut the influence of independent candidates and party substitutes, such as financial-industrial groups. Reforms passed in 2004 that mandated that at least half of seats in regional legislatures be allocated through the proportional representation system dramatically increased the incentives for candidates to establish party affiliations. Later in 2006-2008, new party registration rules required that all parties have official membership rolls of at least 50,000 individuals, an unrealistic demand that decimated the number of parties in existence by 2009 (Golosov 2014). Those that survived began investing more in their own capacity, ushering in an era of political consultants, or 'technologists', who began orchestrating elaborate, well-financed campaigns often in the American model (Hutcheson 2008). Such expenditures were necessarily to win seats through the competitive mixed-member system.

These developments have confirmed the status of a limited number of parties as gatekeepers into regional legislatures through the use of the party list. The mechanism by which they exert their influence over candidates differs from more conventional accounts of developed democracies, whereby parties recruit strong, ideologically aligned candidates, implement internal procedures to determine those with the most electoral potential, and then throw their considerable financial and reputation-based support behind their preferred politicians. Indeed, parties do provide some material-based support to candidates. Getting onto a ballot in Russia requires jumping through a number of administrative hoops, the most burdensome of which is collecting sufficient signatures; aligning with a political party can enable a candidate to tap into a body of party activists and mobilizers to spread the word about a candidacy. In her unique survey of regional deputies from nine regions in the late 1990s, Smyth (2005) finds that the promise of parties' material resources and popularity within districts attracted a minority of politicians in her sample.

However, the role of parties in Russia during this period is more akin to that of an auctioneer than a filter. Parties at the regional level do little to build ideologically coherent party platforms (or 'ideational capital' as in Kitschelt (1999)) or develop cadres that rise into leadership roles across multiple levels of government. Candidates change party affiliations quite easily, maximizing their ability to get the lowest price for the highest probability of access into a duma. Commentators in Ryazan cited the example of Igor Trubitsin, a regional deputy, who had changed parties four times in prior years by drawing on strong local networks in his district that gave him significant leverage in negotations.[10] Firsthand interviews suggest that political leanings are often inconsequential in determining which party candidates align with.[11] Beyond a few token slogans and historical associations (for example, the professed anti-capitalist stance of the Communist Party of the Russian Federation), political parties in Russia often convey little information beyond 'ruling party' or 'opposition', with the latter category earning the prefix 'systemic' given its proclivity to rarely prevent the ruling party from governing as it sees fits.

[10]Interview with Yuri Abramov, consultant at Ryazan office of the Central Election Commission, Ryazan, Russia. November 18, 2013

[11]Interview with Valeriye Mazanov, editor of the Kompanion Journal, Perm, Russia. October 3, 2013; Interview with Natalia Zubarevich, professor of geography at Moscow State University, Moscow, Russia. March 11, 2013

Examples of ideological inconsistency also abound. At the national level, the Communist Party of the Russian Federation has struggled to paper over internal divisions over the inclusion of prominent businesspeople on party lists, even expelling members who criticized the party's strategy of attracting support from millionaires instead of common workers.[12] As many as 24% of candidates on the Communist Party's list during the 2003 national elections were from big business, setting the standard for a muddled ideology in branches across the country.[13] National Communist Party leader Gennadiy Zyuganov even applauded the regional branch of the Communist Party in Nizhniy Novgorod for recruiting wealthy businesspeople into their ranks and filling party coffers with their contributions.[14] Voters too appear to care more about pragmatic results than ideology.[15] According to the deputy speaker of the Perm' Regional Duma, parties simple do not matter; it is much more important for a businessperson to just get into office than how they do so.[16]

Acquiring party affiliation requires paying a hefty sum. Anecdotal evidence about bidding for seats is more widespread at the national level where spots on the list could cost between $1.5-$2 million for national level seats in the State Duma convocation in 2003.[17] By 2007, those estimates had shot up to $7-10 million.[18] For

[12]Myers, Steven Lee. December 2, 2003 "Big Business Plays Largest Role in Current Russian Vote." *New York Times*. http://www.nytimes.com/2003/12/02/international/europe/02RUSS.html (accessed February 26, 2016)

[13]Mereu, Francesca. November 11, 2003 "Business Will Have Big Voice in Duma". *Moscow Times*. http://www.themoscowtimes.com/sitemap/free/2003/11/article/business-will-have-big-voice-in-duma/234678.html (accessed February 26, 2016)

[14]Zhmirikov, Aleksander. November 11, 2005 "Spring Call". *Independent Analytic Observer*. http://www.polit.nnov.ru/2005/11/14/draft/ (accessed February 12, 2015)

[15]Interview with Vitalii Kovin, leader of Perm Golos organization, Perm, Russia. October 7, 2013

[16]Interview with Elena Zyryanova, deputy Perm' Regional Duma, Perm, Russia, October 8, 2013

[17]Mereu, Francesca. November 11, 2003 "Business Will Have Big Voice in Duma". *Moscow Times*. http://www.themoscowtimes.com/sitemap/free/2003/11/article/business-will-have-big-voice-in-duma/234678.html (accessed February 26, 2016)

[18]RenTV News Report, July 6, 2007 "Independent Russian MPs allege sale of State Duma seats". BBC Monitoring; Beshley, Olga. November 15, 2011 "Hunters of Oxotniy Ryad", *The New Times*. http://www.arsvest.ru/archive/issue974/politica/view23114.html. (accessed February 16, 2015)

example, a member of United Russia was sentenced to five years in a prison colony and fined $700,000 in 2014 for attempting to sell a seat on the party's federal list for the 2011 State Duma elections for roughly $8 million.[19] Social contributions and public works projects can substitute for a direct donation.[20] At the regional level, candidates pay for both spots on party lists as well as party membership, which can be a key asset in plurality races for unknown candidates without name recognition to cultivate personal support.

Selling spots on the party lists and endorsements in plurality races helps parties pay for the soaring costs of electoral campaigns, much in the same way political parties in developed democracies are believed to sell access to policymaking to wealthy campaign donors. Expenses are numerous, including having to pay for campaign offices, buy television and newspaper advertisements, compensate activists and agitators engaging in grassroots mobilization, and distribute posters and printed campaign materials (Barsukova and Zvyagintsev 2006). One academic scholar remarked that businesspeople are merely a 'wallet' for political parties to draw upon in order to win their campaigns.[21] These resources are vital to afford the political consultants that now run nearly all aspects of campaign, creating a multibillion dollar industry populated by both foreign and domestic consulting firms (Hutcheson 2008). The more popular parties are, the more seats they can sell during the next elections, creating a positive feedback mechanism to spur party development.[22]

[19] Petukhova, Ekaterina. February 6, 2015 "Guba ne Duma" Lenta.ru https://lenta.ru/articles/2015/02/05/deputaty/ (accessed March 4, 2016); Chazan, Guy. September 10, 2000 "Votes for Sale in the Duma, says Russian Banker". *Telegraph* http://www.telegraph.co.uk/news/worldnews/europe/russia/1354883/Votes-for-sale-in-the-Duma-says-Russian-banker.html (accessed February 9, 2015)

[20] Interview with Valeriye Mazanov, editor of the Kompanion Journal, Perm, Russia. October 3, 2013

[21] Interview with Alla Chirikova, Institute of Sociology, Russian Academy of Sciences, Moscow, Russia. March 15, 2013

[22] RenTV News Report, July 6, 2007 "Independent Russian MPs allege sale of State Duma seats".

But parties have a limited number of seats available to be sold and cannot make endorsements to more than one candidate in a plurality race. A successful party has to appeal to numerous constituencies within the wider public and party lists generally reflect this diversity: lawyers, doctors, teachers, and administrators collectively make-up the majority of candidates on most lists, while women are far more likely to run on the proportional representation ballot than in single-member districts (see evidence below). In regional elections during the period in places like Rostov and Nizhniy Novgorod, commentators have remarked that demand among businesspeople for seats can far outstrip supply, particularly for membership in the ruling party.[23] After all, money does not buy everything: parties are concerned about their image and electability first and foremost, which requires some degree of representativeness among its candidates. Party reputations also rise and fall with the extracurricular activities of their members: a less wealthy lawyer or businessperson who plays an active role in providing for the welfare of his or her community is a much more attractive inclusion than a richer boss that pays no heed to such affairs. This creates a situation where businesspeople must compete in a bidding war for party affiliation, as they try to use both their tangible and intangible assets to sell a party on their electoral appeal.

Numerous interviewees remarked that the most advantageous party, and thus most coveted, to align with was United Russia, the ruling party for a time led by Vladimir Putin and which held majorities in nearly every regional legislature during the period under study.[24] Becoming a member of United Russia can convey significant benefits to candidates, including direct inroads to bureaucrats and members

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BBC Monitoring

[23]Tagadryan, Tsiala. April 23, 2007 "OOO Vybory". *Yuhnyie Reporter*. http://reporter-ufo.ru/2220-ooo-vybory.html (accessed February 15, 2015)

[24]Interview with Yuri Abramov, consultant at Ryazan office of the Central Election Commission, Ryazan, Russia. November 18, 2013; Interview with Petr Panov, political scientist, Perm, Russia. October 3, 2013

of the executive branch as well as a clearer career ladders for the ambitious firm director turned politician. These perks do not run cheap. Because of its significant popularity, United Russia is just about guaranteed numerous seats in each parliamentary convocation, no matter the region; gaining a high spot on the party list is a quite sure ticket to a deputy seat. That certainty of winning paired with the additional financial benefits (see the next chapter for additional evidence) causes the price of getting onto its party list to markedly increase. We should then expect that the firms with the greatest amount of financial assets should be more likely to affiliate with United Russia.

Hypothesis 9 *Firms with more financial resources should run as members of the ruling United Russia party.*

When there isn't enough room under the umbrella of one party (most often the ruling party), opposition parties can step in to fill the gap. Parliamentary spots provide more than just opportunities to get legislation passed; they act as forums for new connections and business ties independent of state regulations. For many businesspeople, just getting a seat is enough, no matter the party they will formally represent. In Nizhniy Novgorod region during the 2006 regional elections, well-financed candidates from the business sector began gravitating towards both the Russian Pensioners Party (RPP) and the Communist Party.[25] The influx of businesspeople into the RPP helped the party secure the second-most amount of seats in the regional duma; it later was merged back into United Russia in exchange for significant political concessions.[26] Opposition parties are less popular with the electorate and have fewer spots on party lists available to sell to businesspeople

[25] Zhmirikov, Aleksander. November 11, 2005"Spring Call". *Independent Analytic Observer* http://www.polit.nnov.ru/2005/11/14/draft/ (accessed February 12, 2015)

[26] Zaytsev, Petr. March 3, 2011 "Parliament of Business Class" *Agency for Business Monitoring* http://www.r52.ru/index.phtml?rid=34&fid=316&sid=92&nid=41059 (accessed February 10, 2015)

(as well as a weaker guarantee that a spot will lead to a deputy seat). Thus the price of joining an opposition party is lower. There may also be consequences for teaming up with an opposition party, such as increased difficulties winning new state contracts or stop payments placed on existing ones.[27] Businesses may face economic repercussions from bureaucrats or state officials, and some have rescinded their support for certain parties because of perceived threats.[28]

Next, managers of state-owned enterprises (SOEs) may have different incentives to join parties than those of private firms. First, state enterprises (or unitary enterprises) are fully controlled by governments at one of three levels: federal, regional, and municipal (Sprenger 2010). Their activities are governed by the corresponding ministry responsible for the sector in which they operate (i.e. a SOE working in farming would fall under the aegis of the Ministry of Agriculture). As pillars of the system of state capitalism promoted by the Putin regime, these enterprises should see greater benefits from joining and supporting the ruling party, which controls the majority of governorships as well as most cadre decisions in the wider bureaucracy. Not many state enterprises though survived the wave of privatization during the 1990s in Russia, and those that did were often the smallest, least profitable, worst run, and least attractive to the private investors that would have bid on them. During the period studied in this project, municipal SOEs outnumbered their state and federal counterparts by nearly 2 to 1 across the country, a clear reversal of the situation in the 1990s (Sprenger 2010). Very often the directors of these municipal SOEs have not changed since the Soviet Union. We then should expect differences in party affiliation based on the governing structure of state-owned enterprises. State and federal-level SOEs, beholden to higher governing authorities for their benefits and regulation will be more likely to lean towards the ruling party, while municipal

[27] Interview with Andrei Starkov, deputy, Perm Regional Duma, Perm, Russia. October 7, 2013

[28] Heyaskin, Georgii. June 4, 2012 "Bourgeoisie in Power: Rules of the Game of Business in Politics" *Uhhan Sire*. http://uhhan.ru/news/2012-06-13-5988 (accessed February 9, 2015)

SOEs as holdovers from privatization and less likely to see a change in directorship will continue their allegiance to the successor party to CPSU, the Communist Party of the Russian Federation.

Hypothesis 10 *State and federal state-owned enterprises will be more likely to support the ruling United Russia party.*

Hypothesis 11 *Municipal state-owned enterprises will be more likely to support the Communist Party.*

Lastly, the organization of the Russian economy into sectors has had profound implications for fiscal policy as well as political influence (Gehlbach 2006). In the previous chapter, I found that firms in more oligopolistic sectors are more likely to put forward directors and managers as candidates to regional office out of concern that their rivals would overwhelm their more conventional methods of securing policy benefits. We might also expect that sector matters when it comes to party affiliation. Joining the ruling party may make more sense for certain types of firms: for example, enterprises that are vulnerable to regulation may think it wise to align with the party of the bureaucracy. A common measure of vulnerability to regulation is the degree of asset mobility of a firm: those firms that can threaten to easily move their production facilities to a neighboring region or even country are able to better withstand pressure from unbridled bureaucrats looking to extract rents. The blurring of the line between the United Russia and the bureaucracy creates a situation where joining the ruling party can have specific benefits for certain types of firms. Though an imperfect measure in many respects, other sector-level measures of regulatory dependence are not available in Russia during this time period.

Hypothesis 12 *Firms in sectors with greater asset specificity will be more likely to support the ruling United Russia party.*

4.2 Data and Empirical Strategy

The ideal way to test the above hypotheses would be to survey businesspeople who did and did not run for office about their preferences for running in either single-member districts or on the party list as well as about why they chose their political party, if at all. Unfortunately, such a detailed survey about the potential candidacies of firm managers in Russia during this time period is not available. Similar surveys only ask managers about their political leanings and lobbying behavior, and not explicitly about their desire or not to run for political office themselves. One problem with correlating firm characteristics with the professed political leanings of their managers is that many firm directors join and support parties during elections that they are not ideologically close to. This is especially the case with regards to the ruling United Russia party, where there are far greater numbers of elite supporters and potential candidates than there are spots under the party umbrella, both on the list and in the plurality races.

The next best approach is to use the observational data on actual businessperson candidacies described and studied in the previous chapter. I restrict analysis here to only actual events of businesspeople running for office, allowing for a within-group comparison of how these individuals make decisions about ballots and parties. Subsetting the data this way is the best available empirical strategy because we simply do not know the preferred ballot or party of those firms that chose not to put forth candidates. All analysis is done at the firm level and includes sector fixed effects; I describe different approaches below for the problem of firms having multiple candidates and present robustness checks accordingly. For the models analyzing ballot choice, I first define three binary outcome variables for whether each firm had its director run on the single-member district ballot, party list, or both (dual-listed). Firms that had multiple candidates and whose candidates ran on both the SMD and party list slates are included in the dual-listed category. I run logistic models with sector fixed effects and errors clustered on region and year for each of these outcome variables. In addition, I build a categorical variable with values for each of three ballot choice outcomes, setting the dual-listed category as the reference. A multinomial logistic model that includes sector fixed effects is presented using this categorical variable.

For the models analyzing party choice, I follow the strategy from the models predicting ballot choice by first defining four binary outcomes indicating which party a firm affiliated with during elections: United Russia (the ruling party), the Communist Party of the Russian Federation, Just Russia (a right-leaning party typically associated with businesspeople), and remaining an independent. For the models predicting the three outcomes referencing actual political parties, I use the full set of candidates (SMD, PR and dual-listed). For the model predicting running as an independent, I only include SMD candidates, since independents by definition cannot put together party lists for the proportional representation slate. In the appendix, I show robustness checks subsetting by the different types of candidates for each of these four party outcomes. Next, I code a binary indicator for whether a firm was affiliated with multiple parties (or ran candidates both affiliated with a party and as an independent). Lastly, I run a multinomial model with two outcome variables – affiliating with United Russia and affiliating with a political party that is not United Russia – and using a reference category of running as an independent.

The main predictors at the firm level parallel those included in the analysis in the previous chapter and are taken from the year prior to its candidacy to a regional legislature. A firm's financial resources is measured by its total assets in thousands of rubles (logged). I measure the size of a firm's workforce by the number of employees (logged); unfortunately there is both some missingness in this variable (roughly 11% of the sample) and it is highly correlated with the size of a firm's assets. I present models including total assets and the number of employees both together and separately. Firm size may also be a function of whether the enterprise has branches outside of its headquarters; I include a binary indicator for the number of subsidiaries. Next, I disaggregate state-owned enterprises into those at the municipal level and those at the state or federal level. I also include indicators for whether the firm engaged in importing or exporting activities. At the candidate level, I take the logarithm of the age of the candidate at the time of the election; for firms with multiple candidates, I take the logarithm of the average age of the multiple candidates. I also include a binary indicator for whether the candidate was male; for firms with multiple candidates, I code a firm as having a male candidate if any of its associated candidates were male. Voter wealth is captured by taking the log of gross regional product, while controlling for total population (logged). I also include the variable measuring the amount of party spending per region-year as a control for the strength of party-based mobilization during each election.

4.3 Results

Predicting Ballot Choice

First, I examine what factors predict whether a firm will run its candidate in a single-member district, on a party list, or dual-listed on both slates. Coming up with descriptive statistics on this choice is somewhat challenging, because it is unclear what the population is that we are trying compare this sample to. Of the 9,787 firms that had businessperson candidates in regions using the mixed-member system, 47.6% were placed on the party list, 37.2% ran in single-member districts, and 15.2% were dual-listed. This might suggest that businesses in general prefer the proportional representation route into office given their higher proportion within the sample. However, there are far more candidates listed on the proportional representation slate than in the single-member districts, given that there are few if any costs for smaller parties to build long lists of candidates that will never get into office (a party may not even pass the threshold). In fact, 64% of all candidates in the dataset were listed solely on the party list, 23% solely in the single-member districts, and 13% on both party lists and in single-member districts. Comparing these sets of proportions, we can see that firms are more likely to run in single-member districts than run on the party lists. Firms perceive advantages in later legislative decision-making by remaining accountable directly to constituents, rather than party leaders who assert control over spots on the party lists and political career trajectories.

The results from logistic models predicting ballot choice one outcome at a time are presented in Columns 1-6 in Table 4.1. There are two models presented for each of the three outcome variables: one that includes and one that excludes the variable of the logged number of employees in the firm. All models include sector fixed effects, cluster errors on region and year, and only include regions where all firms had a choice between the PR ballot, SMD ballot, or both. Overall, several patterns emerge from these logistic results. First, we see a clear progression moving from the PR results to the SMD results (left to right among the columns) that larger firms appear to run more often on the SMD ballot. This is the case using both the measurement of firm size using its financial assets and the size of its workforce, providing evidence in favor of Hypotheses 1 and 3. Larger firms are better able to afford the costs of personally financing a race in single-member districts. In addition, we see that firms with older managers are more likely to choose the SMD slate. Firms that can cultivate a personal vote, either due to the political experience and name recognition of their manager or because of the size of their workforce, opt to seek office as a deputy from a single-member district, which then provides more autonomy. The results on the outcome measuring whether a candidate was dual listed for all three of these predictors fall in the middle of those for the PR and SMD outcomes, lending support that this strategy is a middle way.

At the regional level, we find that firms in wealthier regions are more likely to opt for the party list instead of single-member districts. This evidence supports Hypothesis 2 that firms make decisions about the ballot based on expectations of the cost of running. When candidates have to self-finance, as in plurality races, higher average income among potential voters can push campaign costs to unmanageable levels. The point estimates on the variables measuring party spending also suggest that businesses are attracted to parties that have a more concrete presence in the region. When parties spend more their infrastructure and permanent presence, businesses are more likely to opt for the party list. One reason for this is that stronger parties command more influence in the legislature later on, reducing the benefits and flexibility offered to deputies from single-member districts. Winning a seat through the plurality race thus becomes less valuable than affiliating from the very beginning with factions from political parties expected to be central to policymaking.

The results from the multinomial logit in Columns 7 and 8 confirm the findings from above. Using dual-listed firms as a reference category, we again find that larger firms are more likely to run in single-member districts. Older managers are similarly more likely to go the single-member district route, as well as firms from poorer regions. One unexpected finding from the results is that older firms appear most likely to opt for the dual-listing route, followed by the party list and then the single-member district. This parallels the result below that younger firms are more likely to run as independents. I interpret these results on firm age first with a note of caution - the median age of a firm in the dataset is 10 years, since the firm registration database has limited coverage prior to the fall of the Soviet Union. Therefore, the majority of firms are very young in that sense, having been in existence for no longer than a decade. Older firms, relatively speaking, may also have had more opportunities to build relationships with parties, who are more likely to reward their loyalty with spots on the party list and endorsements in the party list. Younger firms on the other hand have not had the same time to develop those ties and prefer to run as independents (as seen in column 4 of Table 4.2 below).

Predicting Party Choice

Models analyzing party choice are found in Table 4.2. As above, the first five columns of the table utilize logit specifications on binary outcome variables indicating party of choice (Columns 1-3), whether a firm ran a candidate as an independent (Column 4), and whether a firm ran multiple candidates to office (Column 5). All models include sector fixed effects and cluster errors on region and year. The sample includes all candidates from all regions, no matter the electoral system used (mixed-member vs. fully proportional representation). Robustness checks that subset each party choice outcome by candidates from specific ballots can be found in Appendix Table B1 and generally confirm to those found in Table 4.2.

As predicted by Hypothesis 1, larger firms are much more likely to affiliate with the ruling United Russia party. The cost of acquiring membership, either through a spot on the party list or an endorsement in a single-member district, restricts the pool of potential firms to only those with sufficient financial assets. Similarly, larger firms are much more likely to run multiple candidates. Next, we see that the choice of party also depends on the level of governance of a state-owned enterprise. Those operating at the state and federal level see greater benefits from joining the ruling party, while those at the municipal level, possibly with directors held over from the Soviet era, still retain their Communist allegiances. More experienced candidates, as measured by their age, also gravitate towards the ruling United Russia party.

Next in Figure 4.1, I plot the point estimates from the sector fixed effects from six linear probability models with each of the following outcomes related to party choice: United Russia, Communists, Just Russia, Liberal-Democratic Party of Russia, Smaller Parties, or Independent. The Liberal-Democratic Party of Russia is the third party considered part of the systemic opposition that has seats in the State Duma. Its ideology, particularly on economic issues, is somewhat nebulous, as in the eyes of many it is seen as a vehicle for its outspoken leader, Vladimir Zhirinovsky. The next outcome, Smaller Parties, captures all those candidates that didn't align with one of the main four parties in Russia, something that was quite common before the new rules and regulations on party registration described above came into force beginning in 2004. All models only use those regions with mixed-member systems in order to capture firms having equal opportunities to run on either the PR or the SMD ballot. The point estimates on sector from each linear model are in different colors, and the reference category (sector dropped from the analysis) is trade.

Several takeaways emerge from Figure 4.1. First, as predicted by Hypothesis 8, firms working in sectors with more immobile assets such as mining, manufacturing, and utilities are more likely to affiliate with the United Russia ruling party (with the exception of agriculture). Agricultural firms gravitate towards the 'Smaller Parties' category, which includes the small Russian Agrarian party that later merged into United Russia in 2008. Note there also seems to be a tendency for firms in several services sectors as well as health and arts and recreation to affiliate with United Russia, although the variance on these estimates is quite large due to the small number of firms running from these industries. But the overall impression from this figure is that strong patterns of sector-party alliances are not present across the various Russian regions. With the exception of the higher probability of transportation and hospitality firms more likely to run as independents and the United Russia example above, we see little evidence that firms of a specific sector are more likely to find a home in a single political party.

This corresponds to descriptive evidence at the sectoral level that firms from a single industry within a single region are not necessarily more likely to join the same party. Of the 2,945 unique region-sector combinations in the data, roughly

40% (1,220) have a single businessperson candidate running for office during a regional election. The remaining 60% of sectors see more than one firm putting up a candidate for office (1,725 region-sectors). Of this latter number, only 370 sectors, or 21.4%, have multiple candidates that made the same party choice (whether it be a specific party or even to all run as independents). That leaves the vast majority of region-sectors divided between various party organizations and electoral strategies. Sectors with greater oligopolistic concentration tend see firms less fragmented across the party landscape, which is intuitive given the fewer number of viable firms with the resources to run for office. The lack of coordination within sector lends additional evidence of regional parliaments as sites of economic competition between firms, as rivals join opposing political parties in order to push for their own interests. Competitors in a single market see greater dividends from strengthening rival parties than trying to address their differences under the umbrella of a single grouping.[29]

4.4 Conclusion

How do businesspeople candidates decide whether to test the waters in a single-member district rather than compete through a party list? What determines which party these candidates will align with, if at all? This chapter has shown the answers to these questions first revolve around the type of firm a candidate represents. In terms of ballot choice, having more financial assets within the firm enables a businessperson candidate to completely self-fund their potentially expensive campaign in a single-member district, while larger workforces help strengthen a candidate's 'personal vote' by providing a pool of employees to mobilize during this type of election. Businesspeople prefer contesting deputy seats through the

[29]Interview with Alla Chirikova, Institute of Sociology, Russian Academy of Sciences, Moscow, Russia. March 15, 2013

plurality system, given the increased flexibility offered to deviate from the party line if desired in order to push for firm-specific policy advantages within a convocation. The attractiveness of plurality races however decreases as the cost of convincing voters goes up, which is measured by the average income in the region. Greater financial resources also allow businessperson candidates to join up with the ruling party if they so choose; the price of affiliation with the group in power across the country is higher, but comes with a higher probability of getting elected and potential greater benefits for a firm. In general, large firms have the most advantageous set of options available to them to potentially get candidates into elected office and use those positions to help themselves.

These two decisions by businesspeople have potentially large consequences for how laws are made, rents are distributed and political parties compete. In Russia during this period, businesspeople ran in single-member districts at a higher rate than through the proportional representation system, evidence of their preference for this route. Given evidence that businesspeople use their positions within legislatures to aid their firms, electoral systems that favor plurality races, holding other institutional characteristics constant, will result in increased rent-seeking behavior by businessperson politicians. Next, the finding that businesspeople do not necessarily coalesce under one party umbrella has implications for party system development. Increasing economic competition between firms and sectors may facilitate the growth of alternative political parties that could, for example, challenge dominant ruling parties. This dispersion of wealth outside the hands of the central clique may be key for advancing plurality. A ruling party like United Russia has an interest then in promoting monopolistic behavior among firms, which if properly co-opted into party structures, will be easier to manage than a number of large, politically active firms supporting different political parties with their own ambitions. Political competition reflects the configuration of economic actors.

Table 4.1: Ballot Choice of Businessperson Candidates

	Marginal Effects from Logit Models						Multinomial Logit Model	
	PR		Dual		SMD		PR	SMD
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Firm-Level Predictors								
Total Assets (logged)	-0.010^{***}	-0.006^{*}	-0.002	-0.001	0.013^{***}	0.008^{*}	-0.006	0.051^{***}
	(0.003)	(0.004)	(0.002)	(0.002)	(0.003)	(0.005)	(0.013)	(0.014)
Number of Employees (logged)		-0.006		-0.006		0.011^{*}		
		(0.006)		(0.005)		(0.006)		
Firm Age (logged)	0.008	0.008	0.015^{**}	0.015^{**}	-0.023^{***}	-0.022^{**}	-0.082^{**}	-0.163^{***}
	(0.011)	(0.013)	(0.006)	(0.007)	(0.007)	(0.009)	(0.035)	(0.036)
Has Subsidiaries	-0.027^{*}	-0.027^{*}	0.009	0.008	0.018	0.020	-0.122^{*}	-0.012
	(0.014)	(0.016)	(0.010)	(0.012)	(0.017)	(0.019)	(0.074)	(0.075)
Municipal Enterprise	0.081	0.064	-0.008	-0.003	-0.072	-0.061	0.223	-0.163
	(0.053)	(0.053)	(0.017)	(0.017)	(0.049)	(0.048)	(0.186)	(0.199)
State / Federal SOE	-0.001	0.002	-0.008	-0.011	0.008	0.008	0.050	0.070
	(0.055)	(0.051)	(0.020)	(0.021)	(0.042)	(0.038)	(0.209)	(0.210)
Importer	-0.017	-0.006	-0.006	-0.005	0.022	0.011	0.0003	0.096
	(0.018)	(0.020)	(0.010)	(0.011)	(0.017)	(0.018)	(0.093)	(0.095)
Exporter	0.006	-0.003	0.001	0.008	-0.007	-0.006	0.007	-0.024
	(0.020)	(0.020)	(0.015)	(0.017)	(0.021)	(0.021)	(0.107)	(0.108)
Candidate Age	-0.045^{*}	-0.067^{***}	-0.064^{**}	-0.048^{*}	0.112^{***}	0.117^{***}	0.329^{**}	0.743^{***}
	(0.027)	(0.026)	(0.030)	(0.026)	(0.026)	(0.034)	(0.149)	(0.156)
Male Candidate	-0.139^{***}	-0.146^{***}	0.046^{***}	0.057^{***}	0.096^{***}	0.092^{***}	-0.613^{***}	-0.043
	(0.024)	(0.020)	(0.005)	(0.007)	(0.026)	(0.026)	(0.155)	(0.170)
Region-Level Predictors								
Regional GRP	0.050^{***}	0.049^{***}	0.002	0.004	-0.054^{**}	-0.055^{**}	0.091	-0.167^{***}
	(0.014)	(0.012)	(0.014)	(0.015)	(0.027)	(0.026)	(0.058)	(0.061)
Regional Population	-0.034	-0.033	-0.022	-0.023	0.057	0.057	0.068	0.301^{***}
	(0.032)	(0.027)	(0.015)	(0.016)	(0.043)	(0.038)	(0.073)	(0.076)
Party Spending	0.021^{***}	0.022^{***}	-0.004	-0.004	-0.017	-0.017	0.072^{**}	-0.020
	(0.001)	(0.002)	(0.008)	(0.009)	(0.011)	(0.012)	(0.029)	(0.030)
Sector FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	
Observations	9,744	8,656	9,744	8,656	9,744	8,656	9,744	
Akaike Inf. Crit.	13,264.170	11,784.450	8,323.450	7,451.190	12,660.450	11,253.590	19,408.430	

All models include sector fixed effects. The sample only includes regions that utilized the mixed-member system. Columns 1-6 present marginal effects from three separate logistic models with the outcome variable being a binary indicator for the type of ballot the business ran on (and the reference category being the other two potential ballot choices). Errors for the logit models are multiway clustered on region and year. Columns 4 and 5 present point estimates from a multinomial logistic model with the reference category being whether a business was dual-listed on both the PR and SMD ballots. *p<0.1; **p<0.05; ***p<0.01

Table 4.2: Party Choice of Businessperson Candidates

	Marginal Effects from Logit Models					Multinomial Logit Model	
	UR	Communists	Just Russia	Independent	Multiple	Non-UR	UR
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Firm-Level Predictors							
Total Assets (logged)	0.046***	−0.008***	−0.006***	−0.020***	0.005***	−0.072***	0.163***
	(0.005)	(0.001)	(0.002)	(0.005)	(0.001)	(0.013)	(0.014)
Firm Age (logged)	0.011	0.007**	0.005	−0.007	0.009***	0.094***	0.120***
	(0.010)	(0.003)	(0.003)	(0.012)	(0.003)	(0.033)	(0.034)
Number of Subsidiaries	0.003	−0.001	−0.006**	0.001	0.001**	−0.043***	−0.008
	(0.003)	(0.002)	(0.003)	(0.002)	(0.0002)	(0.013)	(0.010)
Municipal Enterprise	−0.111***	0.050***	0.029	0.036	0.001	0.367**	−0.262
	(0.035)	(0.019)	(0.026)	(0.084)	(0.011)	(0.183)	(0.196)
Regional / Federal SOE	0.035	−0.015	−0.008	0.010	−0.010***	−0.057	0.155
	(0.039)	(0.011)	(0.018)	(0.038)	(0.003)	(0.211)	(0.199)
Importer	0.011	−0.012	−0.002	−0.014	0.003	−0.105	−0.020
	(0.012)	(0.009)	(0.012)	(0.027)	(0.004)	(0.098)	(0.095)
Exporter	−0.003	0.016	−0.018***	−0.014	−0.001	0.012	−0.001
	(0.022)	(0.012)	(0.006)	(0.025)	(0.004)	(0.114)	(0.109)
Candidate Age	0.311***	0.121***	−0.079**	−0.294***	−0.019***	−0.291*	1.284***
	(0.021)	(0.042)	(0.032)	(0.046)	(0.005)	(0.152)	(0.159)
Male Candidate	0.044*	0.007	−0.020	−0.041	0.027***	−0.273*	−0.010
	(0.025)	(0.010)	(0.016)	(0.055)	(0.003)	(0.145)	(0.153)
Region-Level Predictors							
Regional GRP	−0.002	0.010	0.028***	−0.079*	−0.002	0.504***	0.373***
	(0.026)	(0.008)	(0.011)	(0.048)	(0.006)	(0.066)	(0.066)
Regional Population	−0.066**	0.001	−0.035*	0.094	−0.001	−0.391***	−0.625***
	(0.033)	(0.011)	(0.018)	(0.061)	(0.008)	(0.082)	(0.082)
Party Spending	0.047***	0.005	0.018*	−0.068***	−0.007***	0.186***	0.362***
	(0.011)	(0.003)	(0.010)	(0.024)	(0.002)	(0.033)	(0.033)
Sector FE	Yes	Yes	Yes	Yes	Yes	Yes	
Observations	10,426	10,426	10,426	3,626	10,426	10,426	
Akaike Inf. Crit.	12,636.920	5,229.805	7,266.278	4,528.890	2,321.713	18,516.660	

All models include sector fixed effects. Columns 1-3 present marginal effects from three separate logistic models with the outcome variable being a binary indicator for choice of party for each firm that ran a candidate (and the reference category being all other party affiliations or not affiliating with a party). The sample in these three models includes all candidates on the PR, SMD, and dual-listed slates. Column 4 models an outcome variable for whether an SMD candidate ran as an independent instead of associating with a political party; the sample here is limited to only candidates that ran in SMD districts. Column 5 models an outcome variable for whether the firm ran candidates from multiple parties (or with a party and as an independent), using the full sample of candidates across slates. Errors for the logit models are multiway clustered on region and year. Columns 4 and 5 present point estimates from a multinomial logistic model with the reference category being whether a firm did not associate with a political party. The two outcomes are for whether a firm associated with United Russia or another party, with the sample restricted to firms with only one type of affiliation. *p<0.1; **p<0.05; ***p<0.01

Figure 4.1: Party Affiliation by Sector

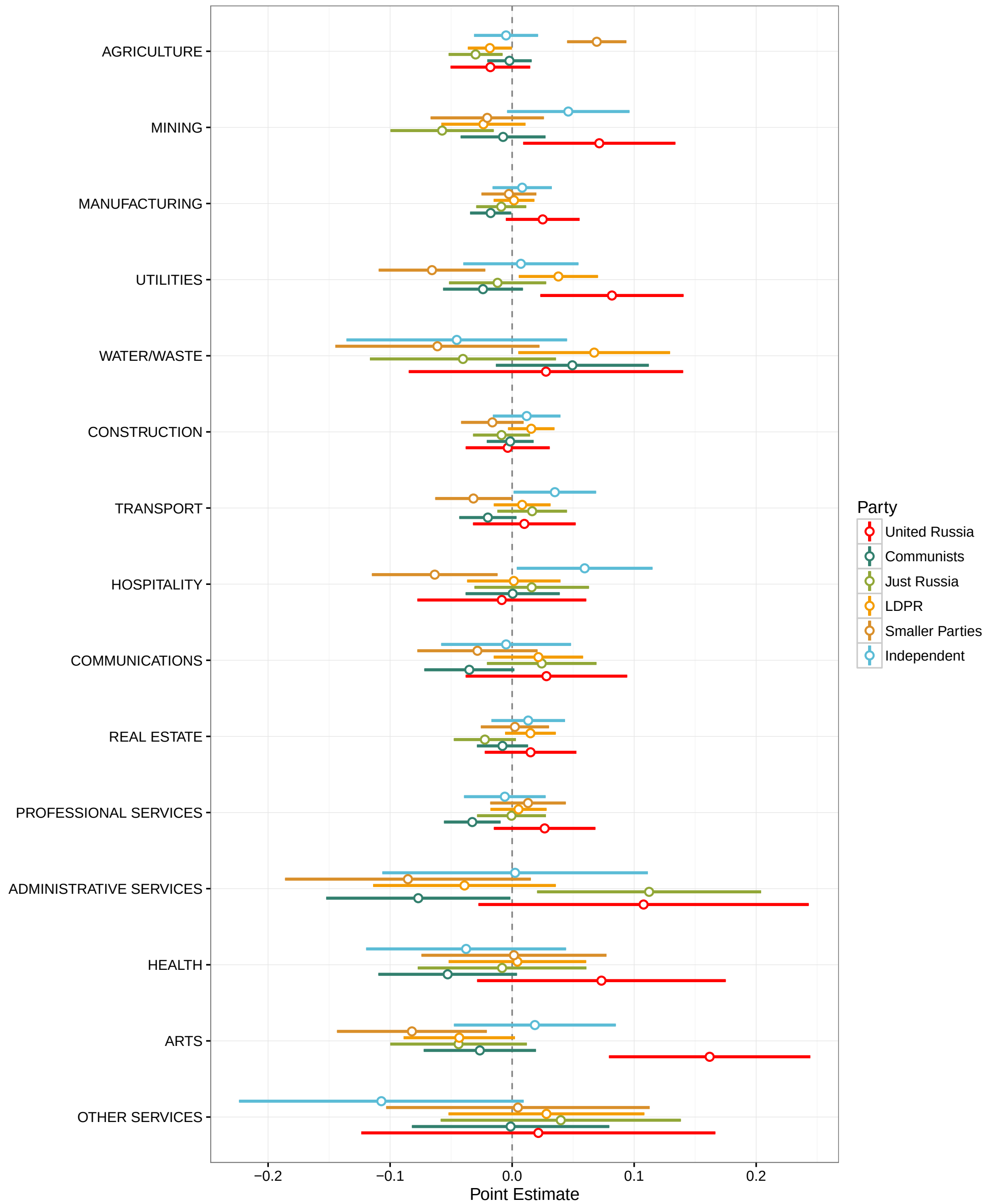


Figure 4.1 presents point estimates on sector from six linear probability models for binary indicators capturing each of the party outcomes listed in the legend. The lines indicate 95% confidence intervals. The reference category is trade.

Chapter 5

Firm-level Returns from Businesspeople Becoming Politicians

Do businessperson candidates win benefits for their firms? If so, what are the underlying mechanisms behind the positive relationship? One fundamental assumption undergirding the dissertation to this point is that businesspeople run for best political office in order to help their private companies. If this assumption is correct, businessperson candidacy is correctly understood as another type of nonmarket strategy by which firms attempt to influence politics. Directors and managers may harbor any number of personal reasons for entering public service, but their priority first and foremost is to translate their hard fought political position into tangible firm-level gains.

However, to date, we have no direct evidence that this strategy actually works as designed. The small number of studies that address the phenomenon of businessperson candidacy do not investigate whether a director winning political office results in superior firm performance (Geys and Mause 2011; Gehlbach, Sonin, and Zhuravskaya 2010). For all its purported benefits (better access to regulators, lawmakers, and bankers comes to mind first), there is still no certainty that candidacy allows a firm to recover the substantial costs of running for office or the increased commitments arising from taking on a more active role in politics (for example, contributions to budget and social funds, dictates to maintain a politically desirable level of employment, or higher tax bills). Political connections may also undermine a firm's competitiveness, investment behavior, and ability to innovate (Desai and Olofsgard 2008). Successful politicians need not make effective firm managers, as government intervention into company management can lead to weak incentive systems and inadequate monitoring (Okhmatovskiy 2010). Because of these increased political demands on their financial resources, business decisions and time, businesspeople that do run for office may be pursuing public service instead solely due to policy motivations or altruism (Fox and Lawless 2005; Diermeier, Keane, and Merlo 2005). In that sense, businessperson candidates' appeals to voters that they plan to leave firm affiliation behind when entering office may actually be true.

In brief, there is no consensus over whether corporate political activity as a whole is a profitable strategy for firms.[1] The wide variation in empirical evidence strongly suggests the need for a more refined approach to analyzing the return on political investments, one that employs a well-identified methodological strategy that can accurately attribute any potential firm-level gains to a political tie to a candidate. Therefore, the aim of this chapter will be to examine if, when and how the strategy of firm directors seeking elected political office pays off for their companies' bottom line. Using the original dataset of the roughly 3,000 firms connected to candidates winning elections in single-member districts in Russia, I employ a regression discontinuity design to identify the causal effect of gaining political ties, comparing outcomes of firms that are directed by candidates who either won or lost close elections to regional legislatures.

I first find that a connection to a winning politician can increase their firms'

[1]See Chapter 2 for an extended discussion of the problems identifying the payoffs to political strategies.

revenue by roughly 60% and profit margins by 15% over their time in office. Businessperson candidacy is indeed advantageous for participating firms. To test for several possible mechanisms driving these results, I collected information on seven million state procurement contracts from 2007-12 as well as data on financial leverage and effective tax rates. I find the improvements in firm performance stem from connected firms' stronger ties with state officials and reduced bureaucratic pressure, rather than alleviated credit constraints or tax relief. Rather than signaling strength to private financiers, politically connected firms take advantage of their access to bureaucrats to increase demand for their goods and services through state procurement contracts. Finally, I find that winning a parliamentary seat is more valuable for firms where democracy is stronger, in wealthier regions, and where natural resources are present, but it is less valuable when firms face acute sector-level competition. This finding suggests that the intensity of economic rivalry, rather than the quality of political institutions, best explains the decision to send a director into public office. Though direct data on regulatory benefits is unavailable, firms possessing immobile assets also enjoy greater revenue and profits. I interpret this result supporting the wider claim that having a firm director win office helps relieve bureaucratic pressure and protect property rights.

The findings presented in this chapter provide the empirical backbone to the central claim made in this dissertation that businesspeople run for office in order to benefit their companies. Allowing active businesspeople to serve as legislators can result in discretionary policies that direct spoils and access to private interests. Moreover, I provide additional confirmatory evidence that economic competition, rather than weak political institutions, drives businesspeople to adopt this strategy. Companies are most concerned with their rivals winning political office and using their positions to dominate the market; this claim is supported by evidence that firms achieve increased revenue and higher profitability when other companies from their sector do not have direct representation in legislatures. Where businessmen dominate political institutions, the only guarantee of influence to secure state-allocated benefits is to directly participate oneself. Finally, somewhat counter-intuitively, stronger political institutions, such as freer elections and the existence of more capable challengers to single party rule, do not decrease the payoffs of businessperson candidacy. More democratic competition increases the demands on a ruling party to co-opt the opposition, resulting on greater dividends for elites who have penetrated political institutions. Promoting democratization by empowering legislatures may actually lead to more rent-seeking as more businesspeople seek access to these institutions and divert state contracts to their firms.

5.1 Data and Empirical Strategy

To test the effect of having an affiliated person (director or deputy director) hold political office on firm performance, I adopt a regression discontinuity (RD) design that exploits 'close' elections. On average across a large sample of elections, winning and losing candidates located near the cutoff score (the threshold required to win the election) should be plausibly comparable, as if victory in the elections was randomly assigned. Therefore, close elections become akin to a coin flip, dependent on such circumstantial exogenous factors as the weather on election day (Lee 2008). RD designs using close elections have grown increasingly popular in the social sciences due to the clear assumptions required and their ability to identify a casual effect (Eggers et al. 2014). In this case, I employ the RD design to compare firm-level outcomes for those companies that are connected to candidates whose vote share falls close to the threshold required to win office. That is, I compare firms connected to narrowly winning candidates to firms connected to narrowly losing candidates. If the assumptions of the RD design are met, this empirical strategy excludes the influence of unobserved differences between both candidates and firms and allows us to measure the true economic effect of a firm having a connection to a legislator (Boas, Hidalgo, and Richardson 2014; Meyersson 2014). Below I present the data from the Russian case, the model specifications, and balance tests to satisfy the underlying assumptions of the RD design.

Data Description

I study the effect of political connections on firm performance using the dataset on candidates to regional legislative elections used in previous chapters, but I restrict the analysis to only those politicians from single-member districts. The conventional RD design requires a plurality system to elect candidates in order to assign probability of victory using the individual margin of victory. Each region determines the exact allocation of seats between election through party list (PR) and plurality electoral districts; approximately 41% of all legislative seats from 2004-2011 were chosen using plurality rules. The final sample consists of 116 elections to regional convocations in 73 regions from January 1, 2004 until March 3, 2011.

Regional legislative elections are set every four or five years by each regional parliament in Russia. Fixed beforehand and exogenous to any political or socioeconomic factors, the Russian electoral calendar is such that roughly 10% of the total number of regions held a legislative election every six months during the time period from 2004 to 2011. Because of difficulties analyzing close races with close margins between three or more candidates, I exclude all races where the difference between the winning candidate and the third place candidate is less than 5%. I omit 45 multi-member districts, as the probability of being above the cutoff score is no longer 50%. I also drop all firms connected to candidates from the sample that lost their single-member district race, but gained a seat in parliament on the party list.[2] The analysis will then compare only the winners and losers in single-member district races, or 12,113 candidates running for office in 2,798 elections. The treatment is assigned at the level of the candidate, while the unit of analysis is the politically-connected firm. I define a political connection as having the firm's director, deputy director, board chair, or board member run for legislative office.[3]

The treatment variable is winning office to a regional legislature and takes a value of 1 if a firm is connected to a winning candidate and 0 otherwise. The forcing variable used is the margin of victory between the winning candidate and the first runner-up in each single-member district. This gives us a cutoff point at zero, with all firms connected to candidates with a positive margin of victory entering the treatment group and all firms connected to the first runner-up joining the comparison group.[4] This variable, *Vote Margin*, takes values from -1 to 1.

Both media and scholarly accounts of political developments in Russia raise concerns that elections to Russian regional parliaments may not be sufficiently competitive to allow for an RD design to be implemented. Although some degree of falsification does occur at the regional level, there are several reasons to believe that elites are truly competing for votes and not all electoral outcomes are not pre-ordained. First, the average margin of victory is 30.1% with a median of 25.7% (see Appendix for a graphical depiction). In terms of close elections, 634 elections were decided by less than 10 percentage points, or roughly 23% of the total sample. This considerable number of competitive elections and continuous nature of the forcing

[2] The Robustness Analysis contains checks when all candidates that ran on both the PR and SMD slates are dropped from the analysis.

[3] The appendix presents robustness checks for defining a businessperson as only a firm director or deputy director.

[4] Firms connected to losing candidates do not constitute a true control group under a causal framework, since these firms are to a degree politically connected by virtue of their directors running for political office. Instead, the comparison analyzed here is between those firms connected to winning candidates and those connected to losing ones. Below I present an extension where a true control group of unconnected firms is approximated through matching, but not causally identified.

variable will allow us to isolate the RD treatment effect right around the electoral threshold. Competitive elections are also distributed proportionately across Russia. Figure 5.1 presents the regional breakdown of election decided by less than a 10% vote margin, as calculated as a proportion of the total number of SMD elections per region.[5] Next, to preview further discussion below, I examine balance along a range of co-variates between winning and losing candidates in close elections and find no evidence that electoral manipulation favors a specific type of candidate or firm. Lastly, if authorities are indeed faking electoral competition to build legitimacy among the population, then we should not expect any financial benefit to accrue to the winners (or for that matter punishment inflicted on the losers). Any coordination between candidates would result in the rent-sharing between complicit parties (in this specific case, firms), and not significant advantages bestowed on the anointed victor.[6]

The main outcome variables for this study are changes in reported revenue (logged and measured in the millions of rubles) and profit margin (net profits divided by total revenue) for each firm over the term in office.[7] I calculate the differences by subtracting each of the values for each connected firm in year prior to the election from their values in the final year of electoral term. Therefore, I include only firms that reported balance sheet data beginning the year prior to the election and spanning the entirety of the term in office.[8] In addition to the main financial outcomes of change in revenue and profit margin, I also collected an array

[5]In Appendix Table B5, I run a series of models that regress the incidence of close elections (as defined as being decided by 5%, 10%, 20% or 30% of the vote) on a battery of possible determinants. Competitive elections are on the whole not significantly different from their non-counterparts, except for two critical factors: they involve a significantly larger number of candidates and the ruling United Russia party candidate is much less likely to win.

[6]I do exclude however the December 2011 election from the sample due to persistent concerns over vote fraud (Enikolopov et al. 2013).

[7]Over the period under study, one Russian ruble equalled approximately $0.03.

[8]See Data Appendix for additional details on how the sample was constructed and potential biases in the data.

of firm-level covariates from the main SPARK database. Below I show regression analysis with and without these controls, but given the myriad factors affecting firm performance beyond political connections, the most refined models are those that employ these covariates. The firm-level control variables used include a binary indicator marking the presence of any foreign ownership stake, a binary indicator marking the presence of any government ownership stake, and the natural log of total fixed assets (measured in millions of rubles) in the year prior to the election taking place. In addition, I employ sector fixed effects by coding the firms into two-digit categories according to the All-Russian Classification of Kinds of Economic Activity (or OKVED).[9] I exclude all firms working in the financial intermediaries and insurance sectors, including banks. Unfortunately the Russian government only collects minimal data on firms' lobbying or campaign contributions activity and only at the federal level. Therefore, this study is a strict comparison of firms with elected representation and those without. Lastly, I show models containing region fixed effects based on which of the 73 regions the elections took place and year fixed effects taken from the year the outcome variables were measured. Candidate-level controls are measured using the Helix Center database and include the age of the candidate at the time of election, gender, a binary indicatory for membership in the United Russia ruling party, and a binary indicator if the candidate is an incumbent from the previous convocation of the regional parliament.

Using the programming script described in the Data Appendix, I was able to identify 2,720 firms connected to 1,976 candidates in Russia from 2004-2011. The final dataset includes firms that candidates directed at the time of their electoral campaign or sat on the board of directors. Put differently, these figures suggest that at least 16% of all candidates to regional parliaments during this period were drawn

[9]OKVED is the internationally recognized, industry standard of classification used by the Russian State Statistics service during this period.

from the local community of firm directors and business executives.[10] Each of these candidates is connected to on average 1.5 firms at the time of their election campaign; I include all connected firms in the analysis. Roughly 17% of the companies work in wholesale or retail trade, the largest sector for those running for office, with the agricultural and food processing sectors having the second and third largest number of firms with 12% and 10% respectively. During the year prior to the contested election of its director to regional office, the median firm has roughly 67 million rubles in fixed assets ($2 million), revenue of 80 million rubles ($2.7 million), and net profit of 925,000 rubles ($31,000). In fact, 28% of companies were in the red during that year. Companies with some degree of government ownership make up 6% of the sample, while those with a minority foreign ownership share constitute 3% of the total. Due to data constraints, I am unable to identify whether other candidates not listed as directors ran for office on behalf of the firm (such as friends or relatives of the firm director). Similarly, I cannot measure lobbying, campaign contributions, or bribes made to politicians. Thus, the analysis presented below strictly compares firms whose director ran and won political office with those whose director ran and lost.

Regression Discontinuity Design

All analysis is done at the firm level, while the treatment is applied to candidates during the year of the election. Standard errors then should be clustered at the candidate level. I also collapse the panel data into a cross-section, as the two main outcome variables are differences between the values from the year prior to the election and the final year that a candidate served or would have served in office. I include the pre-election value of each outcome in every regression to account

[10] I interpret this number as a lower bound because of the constraint that firms submit balance sheet information beginning in the year prior to the election and up until the end of the term.

for differences in starting level. Because of midterm entries and exits, the average length of time a candidate spends in office is 4 years. For firms connected to losing candidates, the exit year is the final year of the parliamentary session to which the candidates ran for office.

I follow Lee (2008) in adopting a regression discontinuity approach that maximizes my ability to control for any differences in any observed and unobserved heterogeneity among firms. First, I show the effects from a simple OLS regression using the global (full) sample of firms connected to candidates. This model estimates a correlation between a politically-connected firm winning an election and performance outcomes. However, because of the potential biases discussed earlier, we cannot interpret the point estimates as reflecting a causal effect. The following specifications are used in these first OLS regressions (with and without controls):

$$Y_i = \alpha_i + \beta * z_i + Controls_{t-1} + \epsilon_i \tag{5.1}$$

where Y_i is the outcome variable for firm i (changes in revenue and profit margin over the term), z_i is a binary treatment indicator for whether a candidate won or lost the election, *Controls* is the set of firm covariates from the pre-election year and various fixed effects, and ϵ_i is a normally distributed error term.

Next, I use the regression discontinuity design to estimate a causal effect. The first approach sharply narrows the estimation window and excludes the use of any control function. This design employs a simple OLS model, but more closely compares observations located right at the threshold and weights observations equally within this sample. I present results using both 2% and 3% windows around the threshold.

The second approach also narrows the estimation window, but includes a local-linear control function to control for any correlation between the vote margin (the forcing variable) and the outcomes of interest. I use windows of 5% and 10% in order to more closely hone in around the threshold. Below is the local-linear specification estimated, with and without controls:

$$Y_i = \alpha_i + \beta * z_i + \gamma * Margin_i + \eta * z_i * Margin_i + FirmControls_{t-1} + \epsilon_i \quad (5.2)$$

where Y_i is the outcome variable for firm i (changes in revenue and profit margin over the term), z_i is a binary treatment indicator for whether a candidate won or lost the election, *Margin* is the forcing variable (which is also interacted with the treatment variable under the local linear design), *Controls* is the set of firm covariates from the pre-election year and various fixed effects, and ϵ_i is a normally distributed error term.

The final specification uses a cubic control function on a wider sample, with the model estimated separately on both sides of the threshold. This allows us to fit smoothed curves that more heavily weight observations closer to the threshold, which helps control for problems such as endogeneity and omitted variable bias. In order not to overfit the regressions by including outliers at the tails, I restrict the sample to a bandwidth of 20%.[11] The specification for this approach is the following:

$$Y_i = \alpha_i + \beta * z_i + \gamma * f(Margin_i) + \eta * z_i * f(Margin_i) + \epsilon_i \quad (5.3)$$

where Y_i is the outcome variable for firm i (changes in revenue and profit margin over the term), z_i is a binary treatment indicator for whether a candidate won or lost the election, $f(\mathit{Margin}_i)$ is a cubic control function that is interacted with the treatment variable to fit above and below the threshold, *Controls* is the set of firm covariates from the pre-election year and various fixed effects, and ϵ_i is a normally distributed error term. All together, these approaches help illustrate the effects of

[11]The optimal bandwidth $\hat{h}$ as determined by the Imbens and Kalyanaraman (2012) algorithm returns values of 37% and 40% for the outcome variables respectively, which is far too large of a margin for an election to be considered close. Therefore I use a margin of 20%, or roughly half of the optimal bandwidth for the polynomial specifications.

various trade-offs made over the size of the window around the threshold and the type of control function adopted.

5.2 Balance Checks

Before moving on to the results, I first run a series of standard validity checks to determine if any sorting is occurring around the cutoff point. Though regression discontinuity studies using close elections are becoming more and more common in the literature, concerns have been raised about their validity as a quasi-random design. If imbalances occur between winners and losers near the winning threshold, then the assumption that elections are decided randomly is violated. For example, incumbents running from the party in control of the electoral infrastructure (i.e. the incumbent party) may enjoy persistent advantages in close elections (Caughey and Sekhon 2011; Grimmer et al. 2012) (though recent work has shown that this "strategic sorting" effect may be limited to elections in the postwar U.S. House of Representatives (Eggers et al. 2014)).

In the case of Russia in the 2000s, the main cleavages around which sorting would most likely occur also relate to the incumbent status and party affiliation of candidates. Incumbents representing Putin's United Russia (UR) party may benefit from compatriot election officials and the use of administrative resources to sway close electoral outcomes in their favor, such as clientelist machines to mobilize voters. First, I run McCrary (2008) density tests to more formally assess the validity of the assumption of continuity around the threshold. Figure 5.2 shows the graph of these tests for all winning candidates, Panel (a), and just UR incumbents, Panel (b). In both cases, the estimated difference is small and the p-value returned is considerably above standard levels of statistical significance. Therefore, we cannot reject the null hypothesis of no sorting around the cutoff point of 0 for these two samples.

Next, I investigate whether any sorting occurs in both the types of candidates located around the winning threshold as well as the specific firms that these individuals are connected to. For example, recent research has shown that large, state-owned firms with highly immobile workers are more likely to mobilize their workers to vote during elections in Russia (Frye, Reuter, and Szakonyi 2014). Similarly, candidates running on behalf of these firms may be able to marshal company resources and budgets to spend on last minute campaigning or to influence officials in what are perceived to be close elections. In order to capture the causal effect of winning office, the data must satisfy the assumption that both candidates and the firms they are connected to are roughly similar across a set of baseline covariates.

To assess covariate balance among candidates and firms, I use two specifications: close margin and local linear regression. Since the treatment effect we are interested in is the effect of winning office, the forcing variable in these specifications is the overall vote margin. I estimate the difference between winners and closers using two sample sizes for the close margin (bandwidths of 2% and 3%) and two sample sizes for the local linear (bandwidths of 5% and 10%). Robust standard errors are clustered on the candidate level.

Figure 5.3 presents the t-statistics from a two-tailed test of the hypothesis that the difference between the comparison groups (winning versus losing candidates) for each of the 21 covariates is zero. For both specifications across the sample sizes, we see little evidence of imbalance between winners and losers and their affiliated firms. In none of the five specifications run do any t-statistics top a value of 2 (with the exception of one model on the presence of a systemic opposition), the conventional level of statistical significance for rejecting the null hypothesis. Winning candidates are not more likely to run the type of firms most likely to participate in election campaigns nor do they have greater company resources to take advantage of to further their electoral campaigns. The 21 sets of regressions used to generate these t-tests are included in the Robustness Appendix.

5.3 RDD Results

First, I present the graphic illustrations of the RD treatment effect in Figure 5.4. I plot logged revenue (Panel A) and profit margin (Panel B) in the final year of the term against vote margin in bins of 1 percent, while limiting the interval of vote margin to elections decided by less than 10% to ease interpretation around the threshold. A LOESS regression line using the unbinned data is included, with the gray area indicating confidence intervals of 95%. The graphs are centered at the discontinuity cutoff point: a vote margin value of zero. The graphs show a positive jump for both revenue and profits around the threshold for winning elections. To calculate the size of this jump more precisely, I next turn to regression analysis.

Results from regressions on change in revenue on victory in single-member district elections, as indicated by the binary variable *District Win*, are presented in Table 5.1. As described above, Columns 1-2 present the results from basic OLS on the full sample of firms. The first model, run without any control variables, indicates that politically connected firms earn substantially higher revenue over the term than their firms without connections. Next I add the battery of firm-level controls (logged total assets, a dummy for state ownership, and a dummy for foreign ownership), and candidate-level controls (age, gender, ruling party membership, and incumbency) as well as year, sector, and region fixed effects to the full OLS specification. The addition of these predictors substantially reduces the effect of winning office, but the result is still statistically significant at the 0.001% level. Although we cannot claim that the point estimates from Models 1 and 2 present causal evidence, the correlation between political connections and firm performance is clearly positive in the Russian case.

Moving onto the RDD models, we see a consistent, positive, and statistically significant effect of directors winning election on firm revenue, as shown in Columns 3-9. In Columns 3 and 4, the bandwidth is narrowed to 2% and 3% respectively without covariates being included, and the point estimate on District Win indicates that firms connected to winning office enjoy an increase of revenue of between 40% and 50% as compared to firms whose candidate narrowly lost. Alternately including local-linear and cubic control functions, widening the bandwidth used, and adding the full set of firm and candidate covariates and year, sector, and region fixed effects, returns substantively similar and consistently statistically significant point estimates on the treatment variable (as shown in Columns 5-9). In all, the coefficients on *District Win* from the varied set of RDD models range from roughly 40% to 70%, translating into a substantial effect of winning office on revenue. The range of specifications run strongly suggests that the results shown reflect a causal effect of winning office. There appear to be large revenue advantages for a firm from having its director win elected office.

Similar results emerge from the regressions on change in profit margin shown in Table 5.2. The order of the model specifications is identical to that from Table 5.1, except here the outcome variable is different. First, as above, the results from the basic OLS models on the full sample (no bandwidth restriction) indicate that politically connected firms see a somewhat higher profit margin over the term their representative holds elected office. When the battery of firm-level and candidate-level controls and year, sector and region fixed effects is added, the result increases but is only significant at the 10% level. Again, given the nature of the simple OLS regression, we cannot interpret these strong and positive correlations as reflecting a causal effect.

However, the RDD results on change in profit margin present much more persuasive causal evidence that winning office leads to more profitable firms. Though some variation in the size of the point estimates exists, the coefficient on *District Win* is statistically significant across the different model specifications and windows used. Using both the close margin approach and local linear and cubic control functions, as well as varying the bandwidth used and covariates employed returns similar point estimates on the variable of interest - the treatment variable *District Win*. The difference in profit margin over the term that a winning firm director holds office ranges from 10% to 20%. The presence of a political connection can spell the difference between an impressively profitable firm and one that barely breaks into the black.

5.4 Causal Mechanisms

What then is potentially driving the results on increased revenue and profit margins for politically connected firms? I next investigate several channels by which firm directors in office can help their companies. First, one set of theories argues that political connections help firms by reducing uncertainty among financiers. When markets are underdeveloped and legal institutions weak, lenders have less information about potential clients and look towards other signals of the borrowing quality or the degree of property rights protection of firms (Richter 2010). These personal relationships can substitute for weak legal institutions in enforcing contracts (Allen, Qian, and Qian 2005). Similarly, in a study of firms connected to parliamentarians in China, Truex (2014) finds little evidence of formal policy influence. Instead market investors interpreted membership in the National People's Congress as a "reputation boost", and lifted their share price accordingly. In Russia, signaling legitimacy in the absence of other market mechanisms may be especially importance given how important private banks to lending operations. A survey of 1,047 firms with credit access across 37 Russian regions in 2012 showed that roughly 70% received their most recent loan from a private financial institution.[12] Having a firm director serve as a legislator may work as a powerful tool to secure financing. Connected firms in Brazil and Pakistan have been shown to benefit from greater financing (Claessens, Feijen, and Laeven 2008; Khwaja and Mian 2005), while companies in the U.S. with political ties pay a lower cost of capital (Houston et al. 2014).

Another theory asserts that corporate political investment opens doors to state bureaucrats who hold sway over lucrative public procurement and regulatory and tax requirement. Under this logic, the value of political ties hinges more on access to key government insiders rather acting as a signal to the market about competitiveness and earnings potential (Ang and Jia 2014; Amore and Bennedsen 2013; Zheng, Singh, and Mitchell 2015). Winning a seat in parliament helps reduce the costs of acquiring information about state contracts and can even help companies influence the way bureaucrats design and conduct tenders. In Novgorod Region in 2005, a regional deputy and local firm director openly stated that winning a seat in the regional parliament would help his business achieve a necessary 'understanding' with regional and local officials.[13] That year his company signed a memorandum of cooperation with the executive branch of his regional government worth 35 million rubles ($1 million). Similarly, a primary objective for Russian firms has been to score tax breaks and lax tax enforcement from regional governments (Slinko, Yakovlev, and Zhuravskaya 2005; Yakovlev and Zhuravskaya 2006).[14] In Perm' Region, a regional deputy and director of a large director of a large silicate panels factory came under criminal investigation for underpaying his tax bill by 31 million rubles ($1

[12]Enterprise Surveys (http://www.enterprisesurveys.org), The World Bank. Russian Federation 2012 Enterprise Survey.

[13]Romanova, Lyudmila. November 11, 2006 "Revolution of the Governing" *Vedomosti Smart Money* http://www.vedomosti.ru/smartmoney/article/2006/11/07/1652 (accessed February 3, 2015)

[14]I control for variation in official rates by including region fixed effects in the model specifications.

million) in 2003 and 2004.[15]

Measuring all channels by which political connections function, whether it be through reputation or access, is impossible. For example, data on subsidies, a key indicator of state support, is not available to the public in Russia. Codifying influence over the regulatory process, such as by lobbying for weaker regulations or the selective enforcement of existing ones, would involve drawing generalizations over the key rules affecting each industry across Russia over time, potentially a never-ending enterprise. Therefore, I am constrained to narrow in on performance-improving activities that businessperson politicians in Russia might undertake where empirical data is more readily available: taking on additional debt (evidence of signaling to private entities) and receiving state contracts and lower taxes (evidence of achieving access). To measure financial leverage, I calculate a ratio of total liabilities (long-term and short-term liabilities) to total assets (*Leverage*) also from the same database. I used a ratio of the annual profit tax paid divided by total profit before tax for each firm-year called *TaxRate*, using data from the SPARK financial database. Lastly, I combine data on all signed contracts between government organizations and individual companies from the Federal Registry of State Contracts housed at the website of the Federal Treasury and the State Procurement Portal.[16] I create a variable *ContractsSum* that sums and logs the total amount of state contracts that firms connected to winning and losing candidates won during the full legislative term they sought office in as measured in millions of rubles.[17] The estimation strategy used to measure the effect of winning office on the three mechanisms is identical to

[15] Ura.ru News Agency. September 9, 2008 "Perm Deputy Suspected of Tax Evasion. Investigators Able to Press Charges." http://ura.ru/content/perm/09-09-2008/news/43641.html (accessed February 3, 2015)

[16] Federal Register, http://reestrgk.roskazna.ru/index.php (accessed February 21, 2015). Procurement Portal, http://zakupki.gov.ru/epz/main/public/home.html (accessed February 21, 2015)

[17] Because data is not available prior to 2007, I restrict analysis to candidates that ran for office beginning in 2008.

that used above in the regressions on changes in revenue and profit margin.

I present results from the set of regressions on effective tax rates, leverage, and state contracts in Table 5.3. No clear relationship emerges between political connections and effective tax rate, no matter which bandwidth or model specification is used. Likewise, political connections are not being used to increase firms' leverage. The point estimates on *District Win* are slightly negative, but none are consistent across the various model specifications. That leaves state contracts, the last mechanism for which data on firms is available. Columns 7-9 in Table 5.3 presents evidence that firms connected to winning candidates indeed enjoy greater opportunities concluding procurement contracts from the government. This analysis compares contracts only among firms that participated in public procurement on both sides of the threshold. The estimates from the RDD specifications show that winning firms win between 3 and 5 times more state contracts than losing firms. Though the sizes of these coefficients does not account for the entire increase in revenue as measured in Table 5.1, they do suggest that one way politically connected firms are able to increase both their revenue and profits is to tap into the largess of public procurement.

5.5 Heterogeneous Treatment Effects

The value of political connections may depend on other institutional and contextual factors as well. First, political factors may enable some businesspeople to extract more rents from government institutions. The absence of civil society makes it much harder to hold politicians accountable for their actions by applying pressure through public campaigns (Faccio 2006). Weaker market institutions also make informal access to political power even more advantageous, since avenues such as independent courts are unavailable for firms to protect their property rights (Li et al. 2008). Alternately, where democracy has taken stronger root, politicians may be wary of abusing their public office for personal financial gain, knowing that they might the voted out of office by voters unhappy with their record of providing public goods (Gehlbach, Sonin, and Zhuravskaya 2010). Lastly, since the early 2000s, the ruling United Russia party has built a formidable monopoly on political power across Russia, winning a majority in 86% of regional parliaments. Accordingly, we might expect that firms connected to representatives of this one ruling party to fare better than their counterparts from other parties. Similar research has found that connections to be worth more when they tie firms to the political group in power (Khwaja and Mian 2005; Zhu and Chung 2014).

Secondly, industrial structure has been shown to have large impacts on both how firms develop their political strategies and the dividends from seeking access (Hillman, Keim, and Schuler 2004). In Chapter 3, I show that greater oligopolistic competition within a sector spurs firm directors to run for office; firms worry that similarly-sized competitors will use seats in parliaments to restrict their own access to policymaking. If that hypothesis is correct, firms run by businessperson politicians should enjoy greater spoils under two conditions: (1) when the structure of their industry is dominated by a few large firms and (2) when there are fewer rival firms also present in regional legislatures. The logic here states that the division of market power among a small set of rivals increases the potential payoffs of winning elected office for those firms that can pull off the feat.

Next, the ability of firms to reap benefits from connections may also depend on the amount of government revenue that can be diverted. Governments vary in the size of budgets to be allocated, mainly based on the level of tax revenue. In resource-rich countries such as Russia, regions with resource endowments may disproportionately enjoy increased tax revenue from extractive firms and thus larger government coffers that sweeten the pie available to the politicians with access to them. Politically connected firms may see larger dividends when the overall pie to split is larger; the additional budget funds both attract greater attention from local firms and allow for more pork to be distributed among them.

Firms also vary across a number of important dimensions that may significantly influence how access to politicians is translated into real gains. For example, author interviews with businesspeople in Tomsk region in Russia in 2014 suggested that overall the firms in construction industry was most interested in seeking elected office.[18] Lucrative state contracts and building permits are allotted mainly at the discretion of regional bureaucrats, who are known to informally grant privileges and leak information to members of parliament. As such, we might expect that firms working in this sector would reap additional profits in the form of real estate deals brokered though official state channels. Work has also shown that firms that are more vulnerable to regulatory sanction or expropriation may value access to politicians more than companies working in sectors less subject to the whims of local bureaucrats (Hellman, Jones, and Kaufmann 2003; Chen et al. 2011). The harder it is for a firm to redeploy its assets elsewhere (i.e. the level of asset specificity), the easier it is for government officials to engage in opportunistic behavior and extract excessive rents. Evidence from interviews supports this: although politicians do not enjoy immunity, regulators and tax authorities may be less likely to pursue even action against high-profile businesspeople in office for fear of the cases being construed as being politically motivated.[19] The value of political office should be greater for those firms for which regulation is a larger barrier to their economic activity.

To examine these possible heterogeneous treatment effects, I follow the literature in splitting the subpopulation of firms to candidates located close to the threshold

[18]Interview with Vasiliy Semkin, deputy of Tomsk Regional Duma. Tomsk, Russia. June 11, 2014.

[19]Interview with Valeriy Otsipov, deputy of Tomsk Regional Duma. Tomsk, Russia. June 9, 2014.

along axes of theoretical interest. In all of the models presented below, this subset is limited to observations within a bandwidth of a 10% vote margin, helping to narrow in on the local treatment effect identified in the above regressions while retaining adequate sample size in each subset. Next, I choose various cut points to subsample this subpopulation; the cutpoints usually are the median or tercile value of dimensions chosen, unless they are categorical in nature, upon which each categorical value is used to split the sample. Lastly, all models also employ firm-level covariates such as size, sector, and ownership to ensure that interpretations of any possible interactions with region-level indicators are potentially not being biased by omitted variables as well as year effects.

Data on each of dimensions outlined above comes from public sources at the regional level. With regards to institutional quality, I use two widely used measures scored at the subnational level in Russia. The first is the Carnegie Democracy Index, developed under the Moscow Carnegie Center's Regional Monitoring Project and updated three times from the period of 2000 to 2012. The measure indexes expert assessments of ten different measures of democracy for Russia's regions on a scale of 5 to 50, with higher scores indicative of stronger democratic institutions. I also measure the percentage of seats that United Russia controlled in each regional parliament, assuming that stronger ruling party control is indicative of less political competition. Measures of competition come from a panel dataset on the universe of registered firms in Russia from 2003-2014. For each OKVED two-digit category, I compute the number of firms from the same sector as that observed have firm directors serving in the regional parliament. Economic dimensions are measured using gross regional product and the presence of natural resources (oil, natural gas, and metals) from Rosstat and the Russian Federal Agency for Subsoil Use, respectively. I code firms with immobile assets as those working in heavy industry, light industry, mining, energy/natural resources, construction, or agriculture (OKVED codes 1-44, 70). The remaining firms, such as those in trade, communications and transportation, are coded as having immobile assets.

Table 5.4 presents the results from the regressions using the institutional variables to subset the sample. All of the models presented use a local linear control function and the full battery of controls, with change in revenue as the dependent variable in Columns 1-2 and change in profit margin the dependent variable in Columns 3-4. Panel A subsets the sample according to low and high levels of democracy as determined by the median of the Democracy Index. Panel B similarly subsets the sample according to the median value of the percentage of legislative seats held by United Russia. These results indicate a positive relationship between the level of democracy and firm returns from political connections. In more democratic regions as well as those where the ruling party faces more political rivals, connected firms see greater profit margins and revenue. These findings suggest that although democratic development may help curb excesses in bribery and increase accountability in some areas, firm directors that can breakthrough into legislative institutions may still be able to extract rents from the government. Nonetheless, aligning oneself with the ruling United Russia party can pay big dividends (Panel C). Perhaps more consequentially, director membership in parties outside of the ruling coalition does not doom the performance of affiliated firms. Although opposition candidates can expect somewhat smaller growth in revenue, their ability to bring home earnings and profits is not diminished compared to those members of opposition parties that lost election.

On the other hand, economic competition diminishes the return on running for office for companies. As shown in Table 5.5, connected firms earn both greater revenue and larger profit margins when they operate in more oligopolistic industries. A firm which loses a parliamentary election but sees a rival win can incur significant costs. Lobbying and making campaign contributions are simply less efficacious if the strategy of businessperson candidacy is adopted by the other members of a single industry. Similarly, the more firm directors from a given sector that win office to a single parliament, the smaller the payoff for their affiliated firms (results in Panel B). The marketplace for rents that emerges within parliament offers reduced profit margins for participants.

Next, subsetting along other economic dimensions, we also see that political connected firms derive greater revenue and profits in wealthier regions, especially where natural resources are fueling economic growth. The top two panels in Table 5.6 present models which are subset on the levels of gross regional product and the presence of natural resources. The results from Panel A indicate the economic development does increase the returns on holding office. We see similar differences when the sample is split according to resource wealth in Panel B. Controlling for individual firm sector, size, and ownership, firms in resource-rich regions make roughly several times more profits than their counterparts in resource-poor regions. Panel C splits the sample based on whether the firms mainly possess mobile or immobile assets. Firms with immobile assets grow at a similar rate but their increases in profit margins are somewhat larger over the term. Political access may be helping drive down the costs of business for firms with immobile assets. Previous outlays on regulation or dealing with bureaucratic arbitrariness are no longer mandated if political ties can help clear up ties with officials.

5.6 Out of Sample Performance Effects

The research design used does not employ a true control group; the firm performance outcomes are compared between so-called 'winning' and 'losing' firms. Firms that did not have a director run for political office are excluded from the sample and not analyzed. This leaves open the possibility that the difference in revenue and profits between winning and losing firms is not being caused the benefits of acquiring political ties, but instead by losing firms seeing a weakening of their potential performance due to the absence of political representation. To address this question, I match firms with a director who ran for office with those that chose not to send a representative to participate in this process. The logic behind this is to identify similar companies without political ambitions and test how they fared while a potential competitor gained direct access to the regional legislature. One challenge is that firms whose directors run for office are significantly different from those that do not. Analyses of the firm-level determinants of corporate political analysis worldwide have shown that attributes such as size, recent performance, dependence on government, and ownership structure are related to the choice to seek political influence (Hillman, Keim, and Schuler 2004; Damania 2002; Grier, Munger, and Roberts 1994). Though matching does not generate identification as the RD design used above, I employ this approach to better understand the mechanism of the identified improvements for firms with director winning office.

I use the Coarsened Exact Matching (CEM) technique developed in Iacus, King, and Porro (2011). My choice of CEM to achieve balance between treatment and control (matched) groups stems from the need to exactly pair firms that operated in the same region and during the same time period as those who put a director up as a candidate for legislative office. The dataset used for the common support includes all registered firms in the SPARK database in operation from 2004-2012. I run six matching procedures, first based on two treatment categories: 1) firms with directors that contested and *won* regional legislative elections and 2) firms with directors that contested and *lost* regional legislative elections. Within each treatment category, three bandwidths are used to subset firms: 10%, 20%, and 100% (margin of victory/loss). I use a simple OLS model with CEM sample weights to return the estimated SATT, presenting results using the three bandwidths, as well as models with and without the covariates used to match the observations (the presence of state ownership, open joint-stock company status, closed joint-stock company status, and the availability of balance sheets in years corresponding to the first and last year a treated firm would have had political representation in a regional parliament). All models employ year, region, and sector fixed effects. For a detailed explanation of the method as well as the specific coarsening procedures utilized, please refer to the Robustness Appendix.

The results on revenue and profit from the specifications using the winning firms are presented in Tables 5.7 and 5.8. When compared to a matched sample of similar firms that did not have a director run for political office, those firms that did win representation see much higher revenue and profits over their term in office. The results from Table 5.7 indicate that firms with directors winning elections can grow by 20%-30% compared with those who didn't. Similarly, profit margins are higher for winning firms, in the range of 7%-16%.[20] On the other hand, firms with directors who lost election to regional parliaments appear to enjoy slightly larger revenue and profit margins than firms with directors that did not opt to run. In Tables 5.9 and 5.10, I present the results from specifications that use as the treatment whether a firm contested and lost an election. Such losing firms on the whole do better than their unconnected counterparts; these point estimates are only statistically significant in several of the models.

Overall, we see that a substantial portion of the effect of having a political connection on firm performance is derived from benefits accruing from winning representation to regional parliaments, and not from those contesting but losing

[20]The estimates from the matching regressions are slightly smaller than those from the RDD design. There are many large, profitable firms that never contest office at the regional level, instead relying on national-level lobbying. These firms have subsidiaries across regions, reducing the importance of focusing on one or another regional parliament. Since national-level representation is unobserved, I cannot control for these firms in the matched sample. The estimates from the RDD and matching designs that include all covariates and fixed effects are much more comparable.

elections being punished by the market. This exercise provides additional evidence to the claim that acquiring a political connection not only allows a firm to achieve greater revenue than its competitors, but also achieve a larger profit margin. Firms losing elections do better than their competitors down the road, but the revenue and profits they receive from such activity are markedly lower.

5.7 Discussion and Concluding Remarks

To briefly summarize, using an RD design to estimate the causal effect of having an affiliated person win office, I find that politically connected firms indeed enjoy greater profit margin while an affiliate holds office. Politically connected firms enjoy increased profit margins of roughly 15% more than similar firms without a director having won political office. Similarly, these connected firms also see an increase in annual revenues of approximately 60% more that those without an affiliated person in power. Such evidence suggests powerful incentives for firms to adopt the strategy of running their director or owner in elections. Because the winning elections differs notably from making campaign contributions or lobbying, benchmarking across these strategies is difficult.[21] Cingano and Pinotti (2013) shows that firms that employ at least one official at the local level can see increases of roughly 6% in revenue and profitability in Italy. Alternately, Amore and Bennedsen (2013) report that companies with family ties to politicians can increase their profits by 100% in 'lowly corrupt' Denmark, similar to work on Thailand showing abnormal returns for connected companies of upwards of 200% (Bunkanwanicha and Wiwattanakantang 2009).

Overall in Russia, gaining direct access to regional legislatures can make the

[21] Complicating matters further is the fact that research on the value of political connections that employs accounting-based measures of organizational performance is rare. The vast majority analyzes the stock market returns for publicly traded companies.

difference between profitable and unprofitable firms. I demonstrate that the benefits of connections derive from lowered informational and regulatory costs for firms in their dealings with bureaucrats, and not from greater access to finance (Braggion and Moore 2013). Interviews with businesspeople deputies attested to this view of political ties: companies whose directors were not able to win a seat were vulnerable to harassment from officials and the loss of market share.[22] Furthermore, deputies noted that corrupt state officials only wanted to work illegally with people they already knew from being in office; a lost election meant a closed door to key policymakers and regulators.[23] Moreover, the additional state contracts enjoyed by politically connected firms suggest that public tax dollars are being allotted not on a competitive and transparent basis, but rather according to crony and insider ties.

The finding that connected firms draw greater profits in more democratic regions challenges previous work that argues that the value of political connections is attenuated by stronger political institutions (Faccio 2006). For example, Gehlbach, Sonin, and Zhuravskaya (2010) argue that rent-seeking businesspeople should be less likely to seek elected office when institutions are more democratic, since they fear being voted out by the median voter. Instead, the positive relationship between democracy and the value of ties shown here reveals that businesspeople may value more democratic and competitive parliaments that are able to pass real legislation. When parliaments are uncompetitive, businesspeople prefer to lobby the executive branch, which dictates the distribution of rents. When parliaments can exert influence on regulations and budgets, businesspeople instead view access to them as key, possibly by occupying the seats themselves. Parliaments become forums in which business interests are negotiated and private favors exchanged,

[22] Interview with Elena Zyryanova, deputy Perm Regional Duma, Perm, Russia, October 8, 2013

[23] Interview with Andrei Agishev, businessmen and former deputy of Perm Regional Duma, Perm, Russia, October 2, 2013; Interview with Andrei Starkov, businessman and regional deputy, Perm, Russia. June 10, 2014

with public goods and rents accrued to the special interests represented inside. Any firms and other groups left outside these networks lose their ability to influence policy and overall societal representation is further distorted.

Often maligned in countries such as Russia as toothless and submissive, I also demonstrate that parliaments cannot be simply dismissed as institutional window-dressing: economic elites make serious investments to gain access to them and earn large payoffs as a result. In Russia, the fierce competition created by direct parliamentary elections results in candidates committing substantial resources in win. While in office, businessperson deputies wield significant formal policy influence in directing state contracts to their own firms, in addition to enjoying real information asymmetries. Parliaments allow power and resources to be shared with key actors (Boix and Svolik 2013), even those outside of the ruling party. I thus present new evidence of how institutions can be used to monetarily co-opt opposition leaders (Reuter and Robertson 2015), and show how greater political competition within these bodes can lead to increased rent-seeking.

Figure 5.1: Percentage of Total SMD Elections Decided by Less Than 10%, by Region

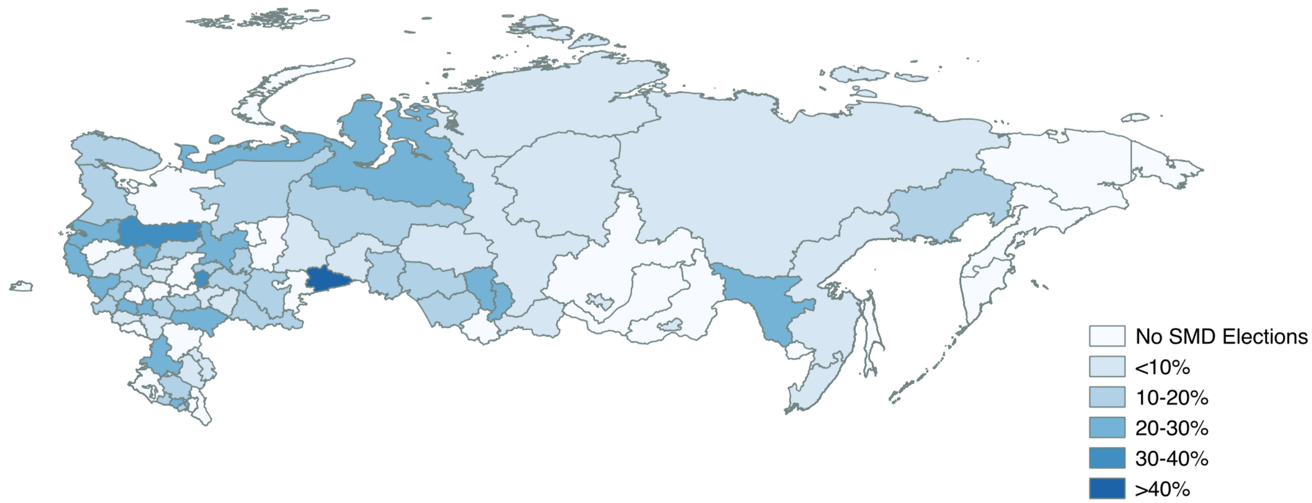
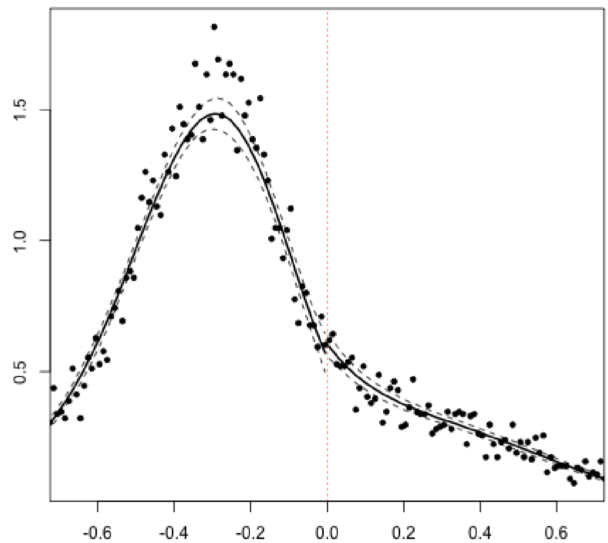
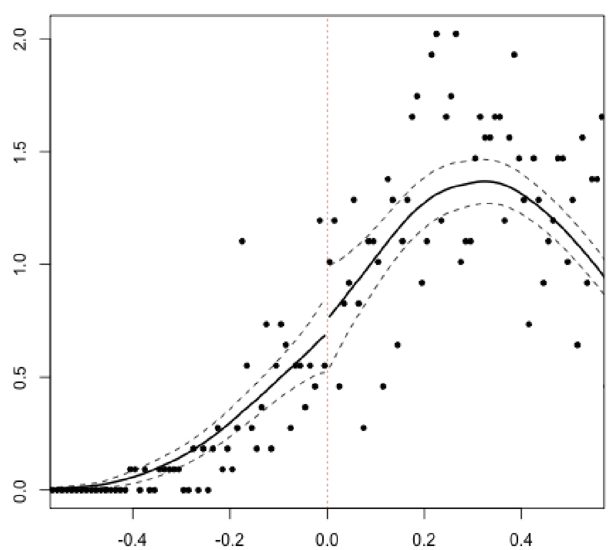


Figure 5.2: McCrary (2008) Density Tests - Winning Margin



Diff= 0.091
S.E.= 0.085
(a) All Candidates



Diff= 0.085
S.E.= 0.206
(b) UR Incumbents

Figure 5.3: Balance Statistics

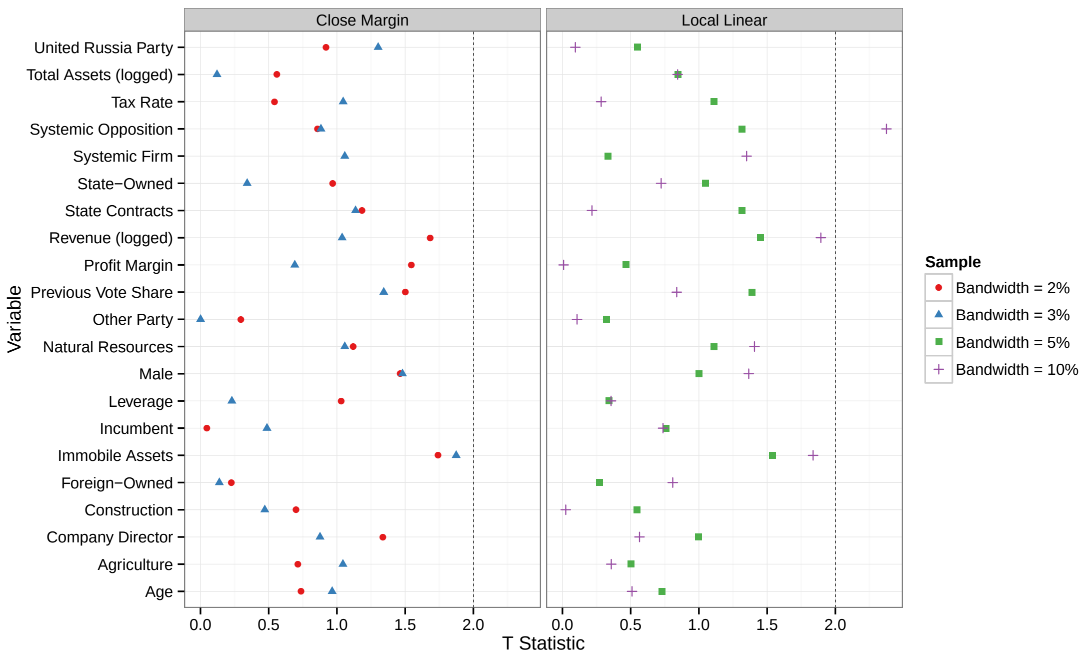


Figure 5.4: RD - Graphical Illustrations

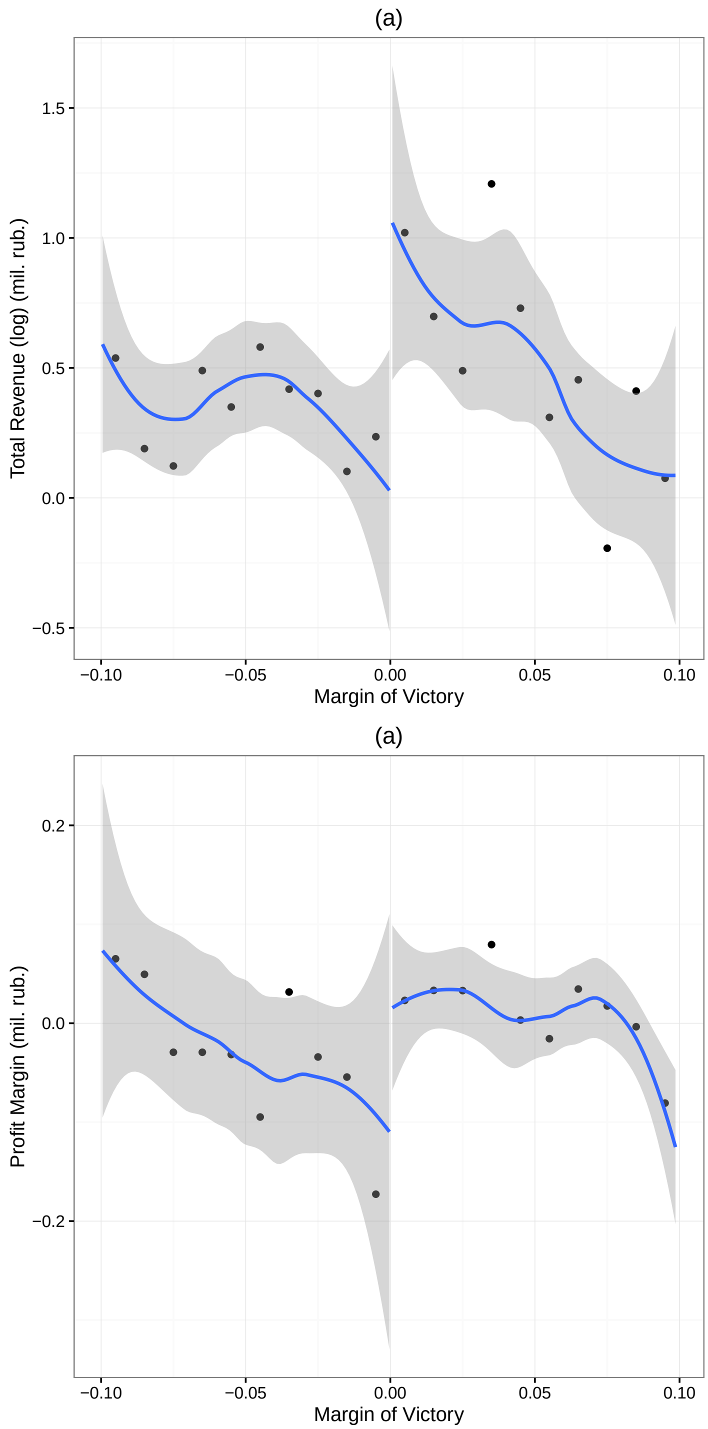


Table 5.1: Political Connections and Firm Revenue

Control Function:	None				Local Linear				Cubic
Bandwidth:	Global		2%	3%	5%		10%		20%
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
District Win	0.336****	0.279****	0.533***	0.416***	0.653**	0.657**	0.586***	0.576**	0.772**
	(0.059)	(0.070)	(0.195)	(0.149)	(0.303)	(0.284)	(0.190)	(0.231)	(0.325)
Bandwidth:	0.8	0.8	0.02	0.03	0.05	0.05	0.1	0.1	0.2
Firm and cand. covariates:	No	Yes	No	No	No	Yes	No	Yes	Yes
Year, Region, Sector FE:	No	Yes	No	No	No	No	No	Yes	Yes
Observations	2,557	2,557	89	139	211	211	445	445	950

*p<0.1; **p<0.05; ***p<0.01

All models use robust standard errors clustered on the candidate level as well as the lagged value for the outcome as a covariate. Columns 1-2 present OLS results using the full sample, with and without firm and candidate controls and year, sector and region fixed effects. Columns 3-4 also use OLS specifications, but restrict the bandwidth to close winning vote margins of 2% and 3% respectively. Columns 5-8 are RD specifications with a local-linear control for candidate winning vote margin, with and without controls and fixed effects. The bandwidth used in Columns 5-7 is a 10% margin of victory, while Column 8 uses a 20% to expand the number of observations as to not introduce bias into the estimation with the cubic polynomial. Firm and candidate controls include age, gender, incumbent status, membership in the ruling United Russia party, a binary indicator for state ownership, a binary indicator for foreign ownership, and logged total assets in the year prior to the election. Year fixed effects capture the year the outcome variables are measured, region fixed effects capture the region where the election was held, and sector fixed effects capture a firm's two-digit OKVED economic category.

Table 5.2: Political Connections and Firm Profit Margin

Control Function:	None				Local Linear				Cubic
Bandwidth:	Global		2%	3%	5%		10%		20%
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
District Win	0.010	0.035^{*}	0.145^{**}	0.105^{**}	0.173^{**}	0.172^{**}	0.132^{***}	0.128^{*}	0.201^{**}
	(0.018)	(0.019)	(0.067)	(0.045)	(0.080)	(0.082)	(0.047)	(0.066)	(0.101)
Bandwidth:	0.8	0.8	0.02	0.03	0.05	0.05	0.1	0.1	0.2
Firm and cand. covariates:	No	Yes	No	No	No	Yes	No	Yes	Yes
Year, Region, Sector FE:	No	Yes	No	No	No	No	No	Yes	Yes
Observations	2,540	2,540	88	138	210	210	442	442	944

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

All models use robust standard errors clustered on the candidate level. Columns 1-2 present OLS results using the full sample, with and without firm and candidate controls and year, sector and region fixed effects. Columns 3-4 also use OLS specifications, but restrict the bandwidth to close winning vote margins of 2% and 3% respectively. Columns 5-8 are RD specifications with a local-linear control for candidate winning vote margin, with and without controls and fixed effects. The bandwidth used in Columns 5-7 is a 10% margin of victory, while Column 8 uses a 20% to expand the number of observations as to not introduce bias into the estimation with the cubic polynomial. Firm and candidate controls include age, gender, incumbent status, membership in the ruling United Russia party, a binary indicator for state ownership, a binary indicator for foreign ownership, and logged total assets in the year prior to the election. Year fixed effects capture the year the outcome variables are measured, region fixed effects capture the region where the election was held, and sector fixed effects capture a firm's two-digit OKVED economic category.

Table 5.3: Political Connections and Underlying Mechanisms

Dependent Variable:	Leverage			Tax Rate			State Contracts		
Control Function:	Local Linear			Local Linear			Local Linear		
Bandwidth:	5%	5%	10%	5%	5%	10%	5%	5%	10%
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
District Win	-0.003	-0.040	0.018	0.121^{*}	0.115	0.044	5.177^{**}	4.709^{*}	2.572
	(0.108)	(0.112)	(0.104)	(0.066)	(0.070)	(0.048)	(2.445)	(2.373)	(1.670)
Bandwidth:	0.05	0.05	0.1	0.05	0.05	0.1	0.05	0.05	0.1
Firm and cand. covariates:	No	Yes	Yes	No	Yes	Yes	No	Yes	Yes
Year, Region, Sector FE:	No	No	Yes	No	No	Yes	No	No	No
Observations	225	225	483	117	117	230	39	39	79

*p<0.1; **p<0.05; ***p<0.01

All models use robust standard errors clustered on the candidate level as well as the lagged value for the outcome as a covariate. Columns 1-3 use firm leverage as the outcome variable; Columns 4-6 use tax rate; Columns 7-10 use total state contracts (logged). All models include a local linear control function, and use bandwidths of either 5% or 10%. Firm and candidate controls include age, gender, incumbent status, membership in the ruling United Russia party, a binary indicator for state ownership, a binary indicator for foreign ownership, and logged total assets in the year of the election. Year fixed effects capture the year the outcome variables are measured, region fixed effects capture the region where the election was held, and sector fixed effects capture a firms two-digit OKVED economic category.

Table 5.4: Heterogeneous Treatment Effects - Institutional Variables

Dependent Variable:	Change in Revenue		Change in Profit Margin	
Panel A: Sample Split at Median of Democracy Score				
Samples:	Low Dem.	High Dem.	Low Dem.	High Dem.
	(1)	(2)	(3)	(4)
District Win	0.535	0.715***	0.079*	0.218**
	(0.344)	(0.269)	(0.041)	(0.090)
Bandwidth:	0.1	0.1	0.1	0.1
Observations	199	246	198	244
Panel B: Sample Split at Median of UR Control of Parliament				
Samples:	Low UR Control	High UR Control	Low UR Control	High UR Control
District Win	0.584**	0.173	0.196***	−0.018
	(0.242)	(0.423)	(0.062)	(0.068)
Bandwidth:	0.1	0.1	0.1	0.1
Observations	322	123	320	122
Panel C: Sample Split at Membership in UR Party				
Samples:	Non-UR	UR	Non-UR	UR
District Win	0.561**	0.791	0.134**	0.180
	(0.250)	(0.480)	(0.067)	(0.122)
Bandwidth:	0.1	0.1	0.1	0.1
Observations	280	165	278	164

*p<0.1; **p<0.05; ***p<0.01

This table displays subgroup RD treatment effects of winning office using a bandwidth of 5% vote share and a local-linear control function. Panel A presents results from subsetting by the median democracy score in the region using the Carnegie Democracy Index. Panel B presents results from subsetting on the median of the number of seats the United Russia controlled in the parliament. Panel C subsets on whether a candidate was a member of the United Russia party. All models include firm-level and candidate-level covariates as well as sector and year fixed effects. Robust standard errors clustered on the candidate level.

Table 5.5: Heterogeneous Treatment Effects - Competition-Related Variables

Dependent Variable:	Change in Revenue		Change in Profit Margin	
Panel A: Sample Split at Terciles of Oligopolistic Concentration				
Samples:	Low Olig.	High Olig.	Low Olig.	High Olig.
	(1)	(2)	(3)	(4)
District Win	0.660**	0.376	0.064	0.172**
	(0.307)	(0.238)	(0.047)	(0.085)
Bandwidth:	0.1	0.1	0.1	0.1
Observations	215	230	214	228
Panel B: Sample Split at Terciles of Sectoral Representation in Parliament				
Samples:	Low Sec.	High Sec.	Low Sec.	High Sec.
District Win	0.624*	0.606**	0.220*	0.076*
	(0.316)	(0.290)	(0.118)	(0.044)
Bandwidth:	0.1	0.1	0.1	0.1
Observations	181	264	180	262

*p<0.1; **p<0.05; ***p<0.01

This table displays subgroup RD treatment effects of winning office using a bandwidth of 10% vote share and a local-linear control function. Panel A presents results from subsetting by terciles of the average percentage of total turnover that the top four firms comprise in the observed firm'sector. Panel B presents results from subsetting on terciles of the number of politicians elected to a regional parliament representing a observed firm's sector. All models include firm-level and candidate-level covariates as well as sector and year fixed effects. Robust standard errors clustered on the candidate level.

Table 5.6: Heterogeneous Treatment Effects - Economic and Sectoral Variables

Dependent Variable:	Change in Revenue		Change in Profit Margin	
Panel A: Sample Split at Median of Regional GRP Score				
Samples:	Low GRP	High GRP	Low GRP	High GRP
	(1)	(2)	(3)	(4)
District Win	0.568**	0.688	0.070*	0.307*
	(0.271)	(0.425)	(0.038)	(0.162)
Bandwidth:	0.1	0.1	0.1	0.1
Observations	269	176	267	175
Panel B: Sample Split according to Presence of Natural Resources				
Samples:	No Resources	Resources	No Resources	Resources
District Win	0.587**	1.103**	0.094**	0.349*
	(0.253)	(0.469)	(0.045)	(0.206)
Bandwidth:	0.1	0.1	0.1	0.1
Observations	307	138	304	138
	(1)	(2)	(3)	(4)
Panel C: Sample Split at Firms with Immobile Assets				
Samples:	Mobile	Immobile	Mobile	Immobile
District Win	0.662*	0.526*	0.107	0.152**
	(0.373)	(0.317)	(0.098)	(0.068)
Bandwidth:	0.1	0.1	0.1	0.1
Observations	206	239	204	238

*p<0.1; **p<0.05; ***p<0.01

This table displays subgroup RD treatment effects of winning office using a bandwidth of 10% vote share and a local-linear control function. Panel A presents results from subsetting by the median of the level of Gross Regional Product in the region, while Panel B presents results from subsetting on whether the region possessed natural resources (oil, gas, metals, or diamonds). Panel C presents results from subsetting on whether a firm is coded to have immobile assets. All models include firm-level and candidate-level covariates. Panels A and B include sector and year fixed effects, while Panel C includes region and year fixed effects. Robust standard errors clustered on the candidate level.

Table 5.7: Matching: Winning Firms and Firm Total Revenue

Bandwidth Cutoff:	0.1	0.1	0.2	0.2	1	1
	(1)	(2)	(3)	(4)	(5)	(6)
Firm Won Election	0.23**	0.27***	0.35***	0.37***	0.25***	0.31***
	(0.09)	(0.10)	(0.07)	(0.07)	(0.04)	(0.04)
Matching Covariates:	No	Yes	No	Yes	No	Yes
Region, Sector FE:	Yes	Yes	Yes	Yes	Yes	Yes
Treated Observations	208	208	435	435	1419	1419
$\mathcal{L}1$	0.37	0.37	0.36	0.36	0.3	0.3
Observations	18,972	18,972	36,090	36,090	93,851	93,851
R^2	0.19	0.08	0.23	0.12	0.17	0.07

*p<0.1; **p<0.05; ***p<0.01
Results from dataset matched using Coarsened Exact Matching (CEM). Variables used to match include total assets (logged), state ownership, and legal status. Total assets is measured in the year prior to that when director of the treated firm ran for office. Revenue is measured in the final year that the director of the treated firm would have left office. Region fixed effects capture the region where the election was held, and sector fixed effects capture a firm's two-digit OKVED economic category. Columns 1-2 match only on firms that won by less than 10% margin; Columns 3-4 match only on firms that won by less than 20% margin; Columns 5-7 match on all firms that won.

Table 5.8: Matching: Winning Firms and Firm Net Profit

Bandwidth Cutoff:	0.1	0.1	0.2	0.2	1	1
	(1)	(2)	(3)	(4)	(5)	(6)
Firm Won Election	0.16***	0.16***	0.16***	0.16***	0.08***	0.07***
	(0.06)	(0.06)	(0.04)	(0.04)	(0.03)	(0.03)
Matching Covariates:	No	Yes	No	Yes	No	Yes
Region, Sector FE:	Yes	Yes	Yes	Yes	Yes	Yes
Treated Observations	208	208	435	435	1419	1419
$\mathcal{L}1$	0.37	0.37	0.36	0.36	0.3	0.3
Observations	18,972	18,972	36,090	36,090	93,851	93,851
R^2	0.14	0.14	0.08	0.07	0.07	0.07

*p<0.1; **p<0.05; ***p<0.01
Results from dataset matched using Coarsened Exact Matching (CEM). Variables used to match include total assets (logged), state ownership, and legal status. Total assets is measured in the year prior to that when director of the treated firm ran for office. Revenue is measured in the final year that the director of the treated firm would have left office. Region fixed effects capture the region where the election was held, and sector fixed effects capture a firm's two-digit OKVED economic category. Columns 1-2 match only on firms that won by less than 10% margin; Columns 3-4 match only on firms that won by less than 20% margin; Columns 5-7 match on all firms that won.

Table 5.9: Matching: Losing Firms and Firm Total Revenue

Bandwidth Cutoff:	0.1	0.1	0.2	0.2	1	1
	(1)	(2)	(3)	(4)	(5)	(6)
Firm Lost Election	0.21**	0.21**	0.15**	0.17***	0.04	0.06
	(0.09)	(0.09)	(0.06)	(0.07)	(0.04)	(0.04)
Matching Covariates:	No	Yes	No	Yes	No	Yes
Region, Sector FE:	Yes	Yes	Yes	Yes	Yes	Yes
Treated Observations	205	205	463	463	1107	1107
$\mathcal{L}1$	0.39	0.39	0.37	0.37	0.33	0.33
Observations	16,469	16,469	38,226	38,226	93,184	93,184
R^2	0.16	0.13	0.16	0.12	0.15	0.11

*p<0.1; **p<0.05; ***p<0.01

Results from dataset matched using Coarsened Exact Matching (CEM). Variables used to match include total assets (logged), state ownership, and legal status. Total assets is measured in the year prior to that when director of the treated firm ran for office. Revenue is measured in the final year that the director of the treated firm would have left office. Region fixed effects capture the region where the election was held, and sector fixed effects capture a firm's two-digit OKVED economic category. Columns 1-2 match only on firms that lost by less than 10% margin; Columns 3-4 match only on firms that lost by less than 20% margin; Columns 5-7 match on all firms that lost.

Table 5.10: Matching: Losing Firms and Firm Net Profit

Bandwidth Cutoff:	0.1	0.1	0.2	0.2	1	1
	(1)	(2)	(3)	(4)	(5)	(6)
Firm Lost Election	0.10	0.10	0.14**	0.14**	0.09***	0.09***
	(0.07)	(0.07)	(0.04)	(0.04)	(0.03)	(0.03)
Matching Covariates:	No	Yes	No	Yes	No	Yes
Region, Sector FE:	Yes	Yes	Yes	Yes	Yes	Yes
Treated Observations	205	205	463	463	1107	1107
$\mathcal{L}1$	0.39	0.39	0.37	0.37	0.33	0.33
Observations	16,469	16,469	38,226	38,226	93,184	93,184
R^2	0.09	0.08	0.12	0.11	0.06	0.06

*p<0.1; **p<0.05; ***p<0.01

Results from dataset matched using Coarsened Exact Matching (CEM). Variables used to match include total assets (logged), state ownership, and legal status. Total assets is measured in the year prior to that when director of the treated firm ran for office. Revenue is measured in the final year that the director of the treated firm would have left office. Region fixed effects capture the region where the election was held, and sector fixed effects capture a firm's two-digit OKVED economic category. Columns 1-2 match only on firms that lost by less than 10% margin; Columns 3-4 match only on firms that lost by less than 20% margin; Columns 5-7 match on all firms that lost

Chapter 6

Conclusion

6.1 Summary of Findings

The primary motivation for this dissertation stemmed from observing the sharply intertwined fates of Russian companies and politicians in the post-Soviet period. Success in one world seemed to depend on success the other, with often times the line in between them so blurry as to be invisible. In the case of Aleksandr Shpeter and the Tomsk Housing Construction Company, the absence of that line was essential to surviving and prospering under intense competition and an existential financial crisis. My goal has not just been to show that political connections matter for firms, but to investigate who tries to acquire them, how they go about doing so, and under what conditions these ties can actually make or break a firm's fortunes. Throughout this story runs a different but related thread: businesspeople taking over political institutions and using them as avenues to benefit their own private interests, potentially at the expense of the public good. When professional politicians cannot be trusted to hold up their end of the representation bargain, outsider candidates see opportunity to supplant them in running for elected office.

In summary, this dissertation introduces and unpacks a strategy available to firms that previous work on representation of economic interests mostly ignores, i.e., directly holding political office rather than using the more conventional (and studied) avenues for gaining favorable policies. I find that the reasons businesspeople run for office primarily stem from concerns that elected politicians will fail to adequately represent their interests. The presence of strong rivals who can induce politician shirking as well as weak political parties who are powerless to prevent it both increase the probability that these politicians will renege on their promises. Becoming a deputy emerges as the most promising strategy for a firm to achieve political influence when lobbying and making campaign contributions lead to null results. But because the costs of winning election campaigns can be enormous, only large firms or those located in poorer regions can afford to pay them.

Taking the risk of running for office appears to pay off financially for these company directors. A single term in office as a deputy in a regional legislature in Russia can net a politician's firm 60% greater revenue and a 15% increase in profit margin. Those improvements stem from improved access to state bureaucrats, who shepherd state contracts to politically connected firms at a higher rate while their leaders hold elected office. Interestingly, empowering voters with greater democratic accountability does not appear to stem the rent-seeking done by these businessperson politicians, and may in fact increase it. When ruling parties face challengers to their rule by way of opposition parties, they are more likely to share the spoils of governance more deeply and broadly than if they more comfortably sat alone atop political institutions. In addition, legislatures that can serve as a strong check on an executive branch are able to extract more individual payoffs for their members than those that are marginalized within the structure of power. As a result, democratization can be a double-edged sword with regards to rent-seeking: greater nominal political competition does not necessarily lead to more virtuous politicians in office. Instead, I find economic rivalries may do more to check the corrupt impulses of elected officials, as competitors have a more entrenched incentive to limit the acquisition of unfair advantages in the marketplace.

To execute this research, I utilized an original dataset on regional legislators and politically connected firms in Russia from 2004-2012. By matching approximately 40,000 candidates to legislative office to any firms they owned or managed, I was able to paint a comprehensive picture of how business and politics intersect during electoral campaigns. Additionally, the analysis sourced quantitative data on the entire universe of two million registered firms in Russia, seven million public procurement contracts, and regional institutional and economic indicators to better identify the determinants and consequences of businessperson candidacy. Finally, I drew upon over 40 interviews completed during fourteen months of fieldwork in three regions in Russia to elucidate why businesspeople there decide to act politically in such an intensive manner.

This analysis of businessperson candidacy helps draw attention to several weaknesses in our understanding of both the ways firms enter politics and political regimes are organized. On one hand, this research reiterates that a firm's choice of corporate political strategy emerges as the result of a trade-off between the probability of winning access and the cost of expending resources to do so. Common wisdom assumes that companies either purchase the access they want from politicians (Austen-Smith 1995; Richter, Samphantharak, and Timmons 2009) or remain content with just donating and lobbying in order to participate in the political process (Ansolabehere, de Figueiredo, and Snyder 2003). My work aligns with Großer, Reuben, and Tymula (2013) and Snyder Jr (1992) in arguing that these *quid pro quo* transactions between politicians and interest groups require enforcement mechanisms and that often times these interest groups have unrealistic expectations of the probability of receiving a positive return on their investments (Gordon, Hafer, and Landa 2007). When contributions fail to achieve their desired politics due to politician shirking, actors such as firms look to other ways of cultivating influence, even going so far as adopting the costly approach of becoming the politicians themselves.

Secondly, my dissertation sheds light on the oft overlooked economic foundations of political regimes, especially where democracy hasn't taken hold (Haber 2006; Pepinsky 2009). Explanations of regime outcomes through references to institutions such as elections and legislatures have grown in popularity as of late in comparative politics (Gandhi 2008; Magaloni 2006; Svolik 2012), but the actual individuals and their economic interests who populate these political institutions appear to have been sidelined from the analysis. Indeed as Samuel Huntington wrote, "the main threat to an authoritarian regime is the diversification of the elite resulting from the rise of new groups controlling autonomous sources of economy power, that is from the development of an independently wealthy business and industrial middle class" (Huntington 1970, pp.20). This dissertation shifts the focus back to the businesses and other societal actors that prop up and legitimate governments, including how they engage with nominally democratic institutions to further their own private interests. In doing so, I present some of the first empirical evidence that governments use elections and legislatures to distribute rents and co-opt potential opponents (Blaydes 2011). Understanding why some regimes persist and others breakdown should begin with explorations of how well integrated powerful economic elites are into government processes.

6.2 A Further Agenda

The arguments developed in this dissertation open up two lines of inquiry connected to the larger implications of businesspeople capturing legislatures. First, a growing body of scholarship has argued that economic inequality in developed democracies may be the result of an imbalance in description representation in political institutions (Carnes 2012). In the United States, for example, less than 2%

of state legislators came from so-called 'working class' backgrounds (Carnes 2013). Wealthy lawmakers appear to approach economic issues in a different fashion than their less privileged constituents, affecting the type of policy decisions made by government. In pursuing their own narrow interests while in office at the expense of voters, businesspeople likewise may be undermining true democratic representation (Gilens 2015). My research extends this analysis to non-democratic countries by identifying a body of politicians, businesspeople, who win elected office in great numbers and exert unparalleled policymaking influence. To date, few works have looked at whether descriptive representation leads to substantive representation in places with low human capital and constrained political competition. Going forward, I will test whether businesspeople occupying elected office have a positive or negative effect on the quality of democratic representation and the performance of political institutions. Do voters prefer to elect businesspeople or professional politicians? How satisfied are constituents with their representation by businesspeople in public office? How well do these economic elites perform as legislators in office, including their ability to provide public goods?

At first glance, we might expect the co-optation of political institutions by wealthy elites to negatively affect representation. Legislative institutions can facilitate the illicit sharing of rents among insiders, while businessperson politicians have fewer obstacles to misappropriating public money and carving out state capacity to fit their private interests. Their focus on private firm success may result in even less attention paid to the constituents that put them into office. On the other hand, in places where human capital is low, economic elites may be the only individuals capable of governing. Their experience running private sector firms may result in superior skills managing bureaucratic staffs, negotiating legislation, and responding to real-world problems. The needs of an average citizen may actually be better represented by businesspeople who are more self-interested in creating the conditions for economic growth, such as by funding education, that will improve their long-term firm prospects. Given their experience and networks, businessperson politicians may provide valuable information and an important perspective to policy debates. In that view, businesspeople holding public office become more akin to lobbyists offering a 'legislative subsidy' (Hall and Deardorff 2006). There also may be reasons to believe that economic elites are more in touch with the preferences of citizens in nondemocratic regimes than professional politicians who have few incentives to move beyond the clientelistic practices that put them into office.

As a result, the jury is still out whether the participation of economic elites in legislatures is good for democratic governance. The first extension of this dissertation will be devoted to gathering data to demonstrate the causal effects of having businesspeople hold office on a host of outcomes related to democratization and public goods provision. Unfortunately, this task cannot be completed using the dataset employed in this dissertation for two reasons: 1) individual regional legislators are just one of many actors responsible for policymaking at the district level and 2) matching legislative districts to economic political outcomes is nearly impossible because of the lack of data on district boundaries. As an alternative strategy, I will collect data on the business background of candidates to city mayors in Russia. Cities are the lowest national administrative unit for which the Russian State Statistics agency (RosStat) collects comprehensive data. Moving to the city level will not only dramatically increase the sample size available to assess whether businesspeople perform differently in office than professional politicians, but also enable me to more squarely connect individuals with specific policy decisions under their purview. Official data collected by RosStat includes taxation revenue and spending allocations as well as health, education, investment and infrastructure outcomes. Using a regression discontinuity design similar to that from Chapter 5, I will examine whether cities with businessperson candidates narrowly winning office are more capable at providing public goods and ensuring economic growth than those where businesspeople narrowly lost (and thus professional candidates won). I will supplement this administrative data with an original survey conducted in September 2014 of 24,000 individuals following regional elections across Russia, where survey experiments were used to gauge voter preferences for businessperson candidates as well as constituency satisfaction with their regional legislators. My work brings us closer to answering the question of whether delegating power to the wealthy in corrupt, uncompetitive societies can lead to more meaningful democratic reform. Given the frequency of political candidates employing such rhetoric in electoral autocracies, this question becomes all the more urgent.

The second outstanding question relates to how generalizable the findings of this dissertation are to other countries and contexts around the world. Although Russia exhibits important political and economic variation across its many regions, one might argue that the noticeable interest among businesspeople during this period in elected office stemmed from permissive laws allowing conflicts of interests or the dearth of professional politicians and lobbying in the country. That said, we saw in Chapter 1 that Russia is not an outlier in terms of the percentage of politicians coming from the private sector. But do economic elites seek political office in other transitioning and developed democracies for the same reasons? How does their legislative behavior differ, whether with regards to their individual firm interests or towards broader societal issues? The main aim for this extension will be to test my primary arguments that businesspeople run for office when they cannot trust politicians to fulfill their promises and when the cost of funding elections is not prohibitive. Similarly, as democratic as some regions appear to be, in no place in Russia is democratic competition as intense as we would recognize in the West. Roughly 10-15% of the parliaments studied here are located in regions classified as electorally democratic as the Philippines, for example, with genuine competition taking place (Panov and Ross 2013; Saikkonen 2015).[1] The negative correlation between the level of democracy and rent-seeking may only reflect evidence from a portion of the spectrum of political regimes, with corruption increasing in middling democratic contexts but dropping again in advanced ones. To further substantiate this claim, more evidence is needed from countries at different stages of democratic development.

To this end, I will collect data on businessperson candidates in three additional countries: Brazil, India and the United States. Anecdotal evidence suggests that businesspeople regularly run for political office in all three places, but differences in the degree of democratic competition and avenues for interest groups to seek influence are apparent. Moreover, all three countries display considerable subnational variation across a number of other important institutional and economic variables: party system institutionalization, the presence of natural resources, and the professionalization of legislatures. In none of the three countries are politicians required to formally exit their business concerns at the time of running for office, while each makes available electoral and firm-level data similar to that which I have used in Russia. I have already identified electronic data sources on candidates in regional elections in India in English (http://myneta.info/) and have found a co-author to begin collecting similar information on candidates in Brazil. For the United States, where electoral data is more decentralized, I will build an original dataset on candidates to state legislatures over the past twenty years. I will write new chapters for the book based on these three country cases which explores the relationship between the design of democratic institutions and elite rent-seeking.

[1] Parliaments in regions considered more democratic are even slightly more likely to be populated by businessmen, at a rate of about 40% compared to that of 36% in the non-democratic sample.

6.3 Future of Businessperson Candidacy

What does the future hold in store for the practice of wealthy businesspeople running for office? In many respects, the answer to that question could be context-specific. In Russia, we should expect fewer and fewer directors becoming deputies for several reasons. First, there has been growing negative attention towards businesspeople in public office, possibly caused by the extraordinary dividends firms were earning from the strategy. Rumors have abounded the United Russia ruling party has been growing leery of so many millionaires and billionaires populating party lists. Already back in 2007, President Vladimir Putin was on record stating at the United Russia party congress, "Power and money should exist separately, this affects party lists" (Moissev 2014). Demand had already been dropping for deputy seats because of the increased scrutiny and investigations of activities outside of the State Duma. Committees were voting to remove parliamentary immunity, often without airing the exact nature of the rule being broken, which for many deputies immediately connoted an air of criminality and a death sentence among voters.[2] Partisan competition was also suspected to be behind the increased persecutions: members of the ruling United Russia party had successfully excluded several opposition deputies from the State Duma on ostensibly trumped up grounds.[3]

Furthermore, deputy mandates at the national level no longer carried the same weight and were not worth the significant investment of resources. Since 2011, both Russia's deteriorating relations with the West and domestic volatility have had an impact on somewhat unexpected impact on businesspeople running for federal office. Interest has fallen due to new strict requirements that state and elected officials

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[2]Pavlikova, Olga. February 11, 2013 "Deputies are Already Not Cool: Business Is Leaving the State Duma". *Dozhd* http://slon.ru/russia/stoimost-905120.xhtml (accessed March 3, 2015)

[3]J.Y. September 17, 2012 "Why Gennady Gudkov was Expelled From the Duma." *The Economist: Eastern Approaches* http://www.economist.com/blogs/easternapproaches/2012/09/russian-politics (accessed March 8, 2016)

de-offshorize assets (that is, to return financial capital invested abroad back to Russia), sell all stakes in foreign companies, close foreign bank accounts, and submit detailed reports on personal income.[4] In seats once occupied by businesspeople have arisen representatives from more 'social' slices of the Russian population, including doctors, teachers, and factory workers. Businesspeople are currently seen as more of a liability than an asset for the reputation of political parties, whereas the promotion of other societal leaders fits in better with the regime's publicly stated fight against corruption and special interests. The final blow to the practice was a law passed by the State Duma in the fall of 2015 requiring all deputies in regional and municipal legislatures to declare their assets and conflicts of interest with businesses.[5] How this legislation squares with a different regime-sponsored attempt to create a new political party designed solely for businesspeople and their interests in the 2016 national parliamentary elections remains to be seen.[6]

On the other hand, in other countries around the world, the prospects for businessperson candidates may not be quite so dim. With popular party membership declining and official state funding often inadequate, political parties are looking more and more to wealthy individual patrons to finance campaign activities. The presence of wealthy businesspeople in higher office may even be trending upwards, as the increased costs of mounting campaigns limit the number of private citizens who can afford to fund them (Barndt 2014; Yadav 2011). Moreover, the public appeal of candidates boasting of their business credentials has never been higher, especially since many push hard on the connection between private sector know-how

[4]Ushakova, Dina. November 6th, 2014 "Social Call" *Lenta.ru* http://m.lenta.ru/articles/2014/11/06/vlast (accessed February 15, 2015)

[5]Lenta.Ru. October 21, 2015 "Prozrachniy Koshelok" *Lenta.ru* https://lenta.ru/articles/2015/10/21/duma/ (accessed March 16, 2016)

[6]Pertsev, Andrey. February 24, 2016 "Why the Kremlin has Again Decided to Create a Rightist Party" Moscow Center Carnegie. http://carnegie.ru/commentary/2016/02/24/ru-62863/iuef (accessed February 24, 2016)

and the ability to generate economic growth beyond an individual firm. In recent years, businesspeople have taken the reins of the national government in Finland, Thailand, Chile, and Ukraine, all running on platforms of stimulating slumping national economies by running government like a business.[7]

Much may depend on how readily countries pass laws mandating public financing of political parties. If parties are relieved of the burden of raising money from private individuals and corporations, fewer deputies spots need be allotted in exchange. Greater economic development may also lead to decreased interest among businesspeople in running for office. Serving in office can be very taxing on individual firm directors in terms of time and money, not to mention the added political pressure and media exposure from occupying a public position. An influential businessperson in Perm region who preferred other methods besides candidacy to influence politics remarked that fatigue with spending considerable resources on politics was building, especially as regional economy grew more complex and demanding on managers.[8] Companies may begin outsourcing their political needs to lobbying firms not only because of the perceived effectiveness of such efforts to influence politicians, but because firm directors can no longer play so many roles simultaneously. Similarly, policies that prevent oligopolies from dominating industry could return the focus of businesspeople to their companies, while delegating political representation to the politicians.

Strengthening political institutions without paying due attention to the elites that inhabit and influence them will not necessarily curb the problem of firms abusing privileged ties and access to political power. A more direct solution would be to

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[7]Bershidsky, Leonid. April 20, 2015 "Another Wealthy Businessman Takes a Crack at Running a Country." *National Post* http://news.nationalpost.com/full-comment/leonid-bershidsky-another-wealthy-businessman-takes-a-crack-at-running-a-country (accessed March 17, 2016); Gardner, Simon and Rodrigo Martinez. February 9, 2010 "Chile's Pinera Unveils Business-Heavy Cabinet" *Reuters* http://www.reuters.com/article/chile-cabinet-idUSN0911499920100209 (accessed March 16, 2016)

[8]Interview with Anton Tomachev, local businessman, Perm, Russia. October 8, 2013

enforce strict regulations on the time politicians can devote to outside activities. Countries may need to require that elected officials disclose not only their personal financial assets, but submit financial documentation on the firm affiliations they and their relatives possess. In 2012, the World Bank calculated that 91% of the 176 countries it examined required members of the national parliament to disclose their earnings and assets (Rossi et al. 2012). Collecting the same information on connected firms' performance could be critical to reducing firm-level rents being misappropriated from public office. Lastly, the insider access provided by a deputy seat may be more valuable in volatile political contexts, where the rules of the economic games are just being written. Time-tested regulations or mechanisms for allotting state contracts have yet to be developed, opening up opportunities for ambitious elites to enter politics to write up these procedures in their favor. As economies grow and politics becomes more institutionalized, the marginal effect of any one legislator on economic policy decreases, and with it the appeal of serving in office for firm directors.

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Appendix

Data Appendix

Introduction to SPARK Database

The primary data used in the analysis in this dissertation is at the firm level. All Russian firms are required to submit their balance sheets and income statements to the official state statistics agency Rosstat every year; this database of registration details is known as the Uniform Register of Legal Entities (EGRUL). The majority of companies comply in order to maintain good relations with the authorities (Mironov and Zhuravskaya 2015). I collect this firm data from the SPARK Professional Market and Company Analysis System (SPARK), which is administered by the well-known press agency Interfax. SPARK is a subscription-based service that purchases and aggregates this official firm data from Rosstat, including registration details, company contacts, information on management and corporate structure, and financial statements, for nearly 12 million firms and organizations in Russia, Kazakhstan, and Ukraine over the last 15 years. According to the company's website (http://www.spark-interfax.ru), SPARK's clients include bank risk departments, financial monitoring services, marketing agencies, insurance and auditing firms, media outlets, and educational institutions. My access was granted through my affiliation with the Higher School of Economics in Moscow, Russia. In this work, I only collected data on officially registered entities in Russia, which are uniquely identified using their ten digit tax identification number (INN) and their eight digit All-Russian Classifier of Firms and Organizations code (OKPO). Each firm has an individual page as well as numerous subpages that present data on their registration history, licenses, and balance sheets, depending on availability.

SPARK also houses a directory of individuals that is based on the Uniform State Register of Individual Entrepreneurs (EGRIP), which contains data on all people officially registered with the government with the status of "private entrepreneurs" or "entrepreneurs not having formed a legal entity." These are official classifications designed to help simplify registration and tax reporting requirements for small businesses. EGRIP collects registration data on almost 12 million of these individual entrepreneurs who are uniquely identified through a twelve digit tax identification number (INN). Data on entrepreneurs includes personal demographic information (name, birthdate, and registration date) as well as entries for every legal entity that they had ever had an official affiliation with (firm director, member of the board of directors, etc.). SPARK still organizes data for all individual businesspeople that are not registered in EGRIP, but no information on birthdate or registration date is available; these businesspeople appear like their counterparts in EGRIP as managers and directors of the firms in the database.

One of the advantage of using SPARK to identify the business ties of businesspeople in Russia is that the system creates a unique homepage for each individual containing information on all companies they have either managed or sat on the board of directors at any time since 1998. These homepages are created for all individuals, irregardless of whether they have an entry in EGRIP and include all identifying information for the firms (INN, OKPO, etc.), the individual's position in the company, the date they began their affiliation with the firm, and whether the affiliation was still active at present. See Figure A1 for the homepage of one politician in the dataset, Aleksander Schpeter, a businessperson from the construction sector who has served several terms in the Perm regional legislature. The bottom table presents information on all companies that Schpiter has been connected to as well as his position, including the firm he has managed for several decades, the Tomsk Housing Construction Company (line 1). These firms are linked to Schpeter by his twelve digit INN (column 1 of the bottom table).

Description of Algorithm

Identifying businessperson candidates involved locating this individual homepage for every single candidate to regional office during 2004-2011. First, I wrote a Python script to collect information on all candidates from the Central Election Commission of the Russian Federation (CEC) and collected by the Center in Support of Democracy and Human Rights Helix. The Helix Center has systematized all election results from the CEC and uploaded the data to a centralized database found at http://db.geliks.org/. I collected the election data used in the paper from the Helix site, filling in any missing data from the primary CEC website (http://www.vybory.izbirkom.ru/region/izbirkom). This data included the first, middle and last names, birthdate, region, gender, last place of work, legislative organ, and political party for all candidates. In addition for those running in single-member districts, this data includes the candidate's total vote count and vote share; for candidates on the party list, the candidate's number is available.

Next, using a programming script, I matched each candidate to his or her homepage in the SPARK database if one existed, using their first name, last name, middle name, and region as identifying information. The script entered the candidate's names and region into the 'manager' box of SPARK's search function for querying

Figure A1: Example of SPARK Connections Page

Настройки

СПАРК

СПАРК - Отчет по ФИО Шпетер Александр Карлович (ИНН: 701802078884)

Сводная таблица

Должность	Вид совпадения			Итого
	ИНН	ФИО и регион	ФИО	
Руководитель	2	4	0	6
Совладелец	3	2	0	5

Полное совпадение (ИНН)

№ п/п	ИНН	Должность		Владение			Наименование	ОГРН / ОГРНИП	Юридический адрес	Статус компании	Дата обновления в СПАРК	Источник
		Название	Статус	Доля в УК, %	Доля в УК, руб.	Статус						
1	701802078884	глава коллегиального исполнительного органа	Действующий	22,05		Действующий	ТДСК, ОАО	1027000761040	Томская обл., г. Томск, ул. Елизаровых, д. 79 корп. 1	Действующая	30.09.2014	Данные компании
2	701802078884	руководитель	Действующий				ТДСК ИНВЕСТ, ООО	1057000119330	Томская обл., г. Томск, ул. Елизаровых, д. 79/1	Действующая	01.01.2009	ГМЦ Росстата
3	701802078884			9	2 000	Действующий	ПЧЕЛКА, ООО	1047000291271	Томская обл., Томский район, пос. Мирный, ул. Трудовая, д. 10	Действующая	27.04.2014	ЕГРЮЛ
4	701802078884				2 805	Бывший	ШИП, ООО	1037000169690	Томская обл., г. Томск, пос. Академический, д. 39	Ликвидирована	08.02.2010	ЕГРЮЛ

its database. If this query returned results, the script then navigating the firm pages on SPARK to locate the individual's homepage. All the data on that homepage was then scraped into a database. Lastly, the script located the firm's page and collected data on basic company characteristics, the board of directors (if one existed), and all financial data.

Roughly 76% of these candidates had homepages in the SPARK system.[9] Next, I manually matched firms to all candidates who listed a company as their place of work on their ballot registration form but who were not located in the SPARK database; these manual matches accounted for an additional 9% of the sample. The final dataset includes firms that candidates directed at the time of their electoral campaign or sat on the board of directors.

Data Quality and Limitations

This official financial data from SPARK has been widely used by academics and journalists alike studying firm-level performance, as well as malfeasance, in Russia. Data from the SPARK system has been used in Mironov and Zhuravskaya (2015) in their investigation of shadow election campaign financings, in Mironov (2013) in a study of at firm-level tax evasion, and by several journalists looking at firms exerting influence on politicians.[10] Using reported financial data to analyze organizational performance may introduce some biases. For example, companies may avoid submitting accurate information about their profitability for fear of exposing themselves to greater tax liabilities or unwanted attention from hostile takeovers. However, given the sensitivity of politicians to unwanted public scrutiny of their financial dealings while in office, we might expect that politically connected firms

[9]This however does not mean that 76% of all candidates are entrepreneurs: SPARK includes a considerable amount information on a number of occupational characteristics of individuals in Russia, including time worked in public institutions, such as hospitals, schools, and political parties.

[10]Beshley, Olga. 'Hunters of Oxotniy Ryad', *The New Times*, November 15, 2011.; Buribayev, Aidar. 'How Russian Elections Are Financed' *Forbes Russia*, October 11, 2012

would be more likely to hide their above-normal profits. This downward bias would make any identification of an effect of political ties on firm financial outcomes a lower bound. We simply do not have sources of data on firm accounting or company characteristics beyond limited firm surveys.

Another concern would be data missingness, which can arise from two situations. First, I am unable to identify whether other candidates not listed as directors ran for office on behalf of a specific firm. Examples include friends or relatives of the firm director who operate as proxies of firm management in office, but have no official designation in the firm and thus do not appear in official records of directorships. While I fully acknowledge the possibility of such scenarios, I do not believe the use of proxies significantly undermines the quality of the data and research design used in the dissertation for several reasons. First, employing friends and family to run for office on behalf of a firm carries a significant set of risks related to electoral uncertainty. By virtue of their personal standing at the top of their firm and community, businessperson candidates have clear intangible assets related to their electability that cannot simply be transferred to kin and associates. Therefore, in order to win elections, a businessperson needs to stand for office himself or herself and appeal to voters using the 'personal vote.' Second, this dissertation focuses on individuals who simultaneously combine private and public sector activities in order to benefit their firms through political access. It is thus interested in a specific subset of political connections, of which there are many types in the Russian context, one where an individual must make trade-offs in their time and resources between two competing occupations. Therefore, although proxies and other types of political ties may be rife in Russia, they constitute a different and equally valid research endeavor. Any type of delegation to an individual whose interests may not completely align with the firm introduces the same reneging problem described in the first part of this dissertation.

The last concern relates to the possibility of businessperson candidates taking steps to hide their connections to firms at the time of the election. Unfortunately it is impossible to gauge in any meaningful way the extent of this evasion of reporting requirements using only publicly available election and firm-level data. For analysis on the determinants of businessperson candidacy, this results in problems with the underreporting of firms running candidates, since some number of firms are actually represented in electoral campaigns to regional office but go undetected by the algorithm. Within-sample comparisons using the dataset, such as measuring the benefits of holding office using the regression-discontinuity design, would be affected by this missingness if it was correlated with whether candidates won or lost office. Given the uncertainty of fierce electoral competition in the single-member districts, there is less concern that one or the other type of candidates would systematically hide their connections across the sample.

Robustness Appendix

Party Choice: Subsetting by Ballot Type (Chapter 4)

Because party choice is partly a function of the first decision of which ballot to run on, the results presented in Chapter 4 about why businesspeople choose certain parties might be biased by looking at the full sample of candidates running on all three ballots. In other words, the incentives for candidates to affiliate with a certain party may differ for those running in plurality races (who require more resources for example to win their race) than those that have decided from the beginning to opt for the proportional representation route. In Table B1, I test whether the main findings hold when subsetting to candidates from any of the three ballots: SMD, PR, or dual-listed. Overall we see that larger firms in general are more likely to associate with the United Russia party, no matter the type of ballot chosen by the candidate. The premium for membership in the ruling party holds no matter the electoral procedure used, as such partisanship can even assist a candidate in a plurality race fight off his or her rivals. Similarly we find that older (i.e. more experienced) candidates are more likely to join the ruling party, whereas fresher faces eschew party affiliation altogether to run as independents.

Table B1: Party Choice of Businessperson Candidates - Subset by Ballot Choice

	UR			Communists			Just Russia			Independent		
	SMD	PR	Dual	SMD	PR	Dual	SMD	PR	Dual	SMD	Dual	All
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
Firm-Level Predictors												
Total Assets (logged)	0.045***	0.040***	0.062***	−0.004***	−0.006***	−0.012**	−0.004***	−0.005*	−0.006	−0.020***	0.013***	−0.001
	(0.005)	(0.007)	(0.014)	(0.001)	(0.002)	(0.005)	(0.001)	(0.003)	(0.004)	(0.005)	(0.005)	(0.003)
Firm Age (logged)	0.004	0.021**	0.010	0.006	0.004***	0.004	0.001	−0.001	0.024	−0.007	0.018	−0.009***
	(0.018)	(0.010)	(0.020)	(0.005)	(0.001)	(0.009)	(0.002)	(0.005)	(0.016)	(0.012)	(0.016)	(0.004)
Has Subsidiaries	−0.002	0.005**	0.010	−0.0005	0.0004	−0.020***	0.0003	−0.008**	−0.013	0.001	0.001	0.002
	(0.003)	(0.002)	(0.007)	(0.001)	(0.002)	(0.004)	(0.001)	(0.004)	(0.008)	(0.002)	(0.002)	(0.001)
Municipal Enterprise	−0.083	−0.096**	−0.199***	0.030	0.044	0.056	−0.014	0.024*	0.050	0.036	−0.001	−0.015
	(0.073)	(0.047)	(0.061)	(0.019)	(0.033)	(0.067)	(0.018)	(0.013)	(0.091)	(0.084)	(0.050)	(0.021)
Regional / Federal SOE	−0.021	0.127**	−0.158***	0.012	−0.028***	−0.051	−0.010	−0.018	0.020	0.010	−0.029	−0.014
	(0.035)	(0.053)	(0.049)	(0.018)	(0.010)	(0.069)	(0.014)	(0.023)	(0.096)	(0.038)	(0.022)	(0.020)
Importer	0.031	0.011	−0.001	−0.011***	−0.013	0.009	−0.012*	0.005	−0.014	−0.014	0.006	0.003
	(0.028)	(0.015)	(0.028)	(0.004)	(0.012)	(0.029)	(0.006)	(0.015)	(0.055)	(0.027)	(0.024)	(0.014)
Exporter	0.011	−0.016	−0.029	−0.001	0.020	0.055	0.005	−0.017	−0.049***	−0.014	0.021*	0.003
	(0.024)	(0.024)	(0.037)	(0.007)	(0.021)	(0.034)	(0.009)	(0.017)	(0.015)	(0.025)	(0.013)	(0.009)
Candidate Age	0.412***	0.250***	0.277***	0.023*	0.119**	0.419***	−0.029*	−0.081	−0.081*	−0.294***	−0.057***	−0.055***
	(0.050)	(0.034)	(0.093)	(0.013)	(0.053)	(0.080)	(0.017)	(0.050)	(0.044)	(0.046)	(0.019)	(0.017)
Male Candidate	0.090**	0.027	0.092	−0.021*	0.019	0.033	0.011	−0.006	−0.100	−0.041	0.029	0.024
	(0.040)	(0.039)	(0.071)	(0.012)	(0.016)	(0.039)	(0.007)	(0.024)	(0.080)	(0.055)	(0.045)	(0.023)
Region-Level Predictors												
Regional GRP	0.051	−0.001	−0.139***	−0.004	0.010	0.035	0.026***	0.014	0.037	−0.079*	−0.00002	−0.053
	(0.047)	(0.025)	(0.010)	(0.011)	(0.012)	(0.024)	(0.007)	(0.013)	(0.027)	(0.048)	(0.030)	(0.034)
Regional Population	−0.076	−0.096***	0.075***	0.008	−0.005	0.017	−0.015***	−0.020	−0.086**	0.094	0.032	0.065
	(0.048)	(0.033)	(0.020)	(0.016)	(0.014)	(0.037)	(0.004)	(0.020)	(0.037)	(0.061)	(0.041)	(0.048)
Party Spending	0.062**	0.048***	0.016***	0.001	−0.001	0.020**	0.001	0.016	0.052**	−0.068***	−0.033**	−0.038***
	(0.027)	(0.012)	(0.002)	(0.004)	(0.005)	(0.009)	(0.004)	(0.013)	(0.021)	(0.024)	(0.014)	(0.013)
Sector FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	3,626	5,309	1,491	3,626	5,309	1,491	3,626	5,309	1,491	3,626	1,491	10,426
Akaike Inf. Crit.	4,319.474	6,527.913	1,444.219	766.243	2,993.339	1,203.269	824.359	4,485.873	1,475.137	4,528.890	741.611	8,702.351

All models include sector fixed effects. Columns 1-9 present marginal effects from three separate logistic models with the outcome variable being a binary indicator for choice of party for each firm that ran a candidate (and the reference category being all other party affiliations or not affiliating with a party). Three outcome variables are used: affiliation with United Russia, the Communist Party (KPRF), and Just Russia (SR). Three samples are used for each of the outcome variables in Columns 1-9: SMD candidates, PR candidates, and dual listed candidates. Columns 10-12 use an outcome variable of running as an independent with three samples: only SMD candidates, only dual-listed candidates, and all candidates. Errors are multiway clustered on region and year. *p<0.1; **p<0.05; ***p<0.01

Placebo Checks (Chapter 5)

- Tables B2, B3, and B4 present the results of placebo regressions on the baseline covariates used to assess balance between the treatment and the control group in the regression discontinuity design used in Chapter 5. The aim here is determine whether there is balance between observations located near the threshold needed to win an election. By running placebo models on other variables measured at the time of assignment to treatment, we can check that treatment status is being more or less randomly assigned. The t-statistics derived from these models (as well as from other specifications) are those used to generate Figure 3 (Balance Statistics) in Chapter 5.

- The regressions exclude other covariates, including year and region fixed effects, and two specifications and sample sizes are presented. In Panel A, the sample is restricted to elections within a 2% bandwidth, that is, to elections that were decided by a winning margin of less than 2% and no control function is included. In Panel B, the sample is restricted to elections within a 5% bandwidth, or to elections that were decided by a winning margin of less than 5%, and a local linear control function is included.

- The results show that the treatment of winning a close election is not correlated with any of the other baseline covariates (measured during the year prior to the election). We do not observe any sorting either at the candidate level (using various characteristics of the candidates vying for elections) nor at the firm level (using various firm-level financial and descriptive indicators). We can thus be confident that using the Regression Discontinuity Design based on close elections is appropriate for the Russian case, as elections are truly competitive and victory appears to be as-if randomly assigned among a large sample of close races.

Table B2: Placebo Checks - Candidate Covariates

Outcome:	Age	Male	Incumbent (Any)	United Russia Party	Systemic Opposition	Other Party	Company Director	Previous Vote Share
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Panel A: Close Margin RD with bandwidth of 2%								
District Win	0.016	−0.056	−0.003	0.050	0.038	0.009	0.066	0.057
	(0.022)	(0.038)	(0.053)	(0.054)	(0.045)	(0.030)	(0.049)	(0.039)
Constant	3.860***	0.899***	0.323***	0.316***	0.171***	0.070***	0.222***	0.340***
	(0.016)	(0.024)	(0.037)	(0.037)	(0.030)	(0.020)	(0.033)	(0.024)
Observations	311	311	311	311	311	311	311	84
Panel B: Local linear RD with bandwidth of 5%								
District Win	0.020	−0.048	−0.050	0.037	0.073	−0.013	0.062	0.068
	(0.028)	(0.048)	(0.067)	(0.068)	(0.055)	(0.038)	(0.061)	(0.047)
Constant	3.858***	0.899***	0.354***	0.310***	0.136***	0.085***	0.210***	0.337***
	(0.021)	(0.032)	(0.046)	(0.047)	(0.036)	(0.026)	(0.040)	(0.031)
Observations	736	736	736	736	736	736	736	190

*p<0.1; **p<0.05; ***p<0.01
All models use robust standard errors clustered on the candidate level. Panel A restricts the sample to observations within a 2% bandwidth and does not use a control function. Panel B restricts to 5%.

Table B3: Placebo Checks - Firm Covariates (1)

Outcome:	Foreign-Owned	State-Owned	Systemic Firm	Agriculture	Construction	Natural Resources	Immobile Assets
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Panel A: Close Margin RD with bandwidth of 2%							
District Win	−0.010	0.065	0.000	−0.050	0.045	−0.025	−0.180
	(0.045)	(0.066)	(0.000)	(0.070)	(0.063)	(0.025)	(0.109)
Constant	0.050	0.075*	0.000	0.150***	0.075*	0.025	0.700***
	(0.035)	(0.043)	(0.000)	(0.055)	(0.041)	(0.025)	(0.075)
Observations	90	90	90	90	90	90	90
Panel B: Local linear RD with bandwidth of 5%							
District Win	−0.016	0.080	0.009	−0.042	0.043	−0.020	−0.211
	(0.056)	(0.087)	(0.020)	(0.095)	(0.085)	(0.021)	(0.145)
Constant	0.035	0.092*	−0.009	0.190***	0.038	0.020	0.708***
	(0.047)	(0.054)	(0.020)	(0.073)	(0.067)	(0.021)	(0.104)
Observations	232	232	232	232	232	232	232

*p<0.1; **p<0.05; ***p<0.01

All models use robust standard errors clustered on the candidate level. Panel A restricts the sample to observations within a 2% bandwidth and does not use a control function. Panel B restricts to 5%.

Table B4: Placebo Checks - Firm Covariates (2)

Outcome:	Total Assets (logged)	Revenue (logged)	Profit Margin	Leverage	Tax Rate	State Contracts
	(1)	(2)	(3)	(4)	(5)	(6)
			Panel A: Close Margin RD with bandwidth of 2%			
District Win	−0.270	−0.753	−0.051	0.117	−0.021	−5,722,726.000
	(0.514)	(0.466)	(0.033)	(0.104)	(0.039)	(5,424,817.000)
Constant	11.000***	11.604***	0.036	0.553***	0.264***	6,147,074.000
	(0.371)	(0.318)	(0.025)	(0.048)	(0.034)	(5,418,501.000)
Observations	90	89	89	89	62	90
			Panel B: Local linear RD with bandwidth of 5%			
District Win	−0.617	−0.915	−0.032	0.071	−0.068	−14,719,396.000
	(0.681)	(0.632)	(0.054)	(0.145)	(0.055)	(10,167,475.000)
Constant	11.361***	11.690***	0.038	0.477***	0.264***	5,276,528.000
	(0.475)	(0.445)	(0.038)	(0.077)	(0.046)	(4,616,992.000)
Observations	232	217	218	228	151	232

*p<0.1; **p<0.05; ***p<0.01
All models use robust standard errors clustered on the candidate level. Panel A restricts the sample to observations within a 2% bandwidth and does not use a control function. Panel B restricts to 5%.

Determinants of Close Elections (Chapter 5)

- Table B5 presents the results from a series of models investigating possible differences between so-called 'close' (or competitive) elections and other elections determined by a much larger margin of votes. Key to this discussion is that close elections may not be representative of the full sample of elections in the Russian context in meaningful ways. Therefore the local average treatment effect identified through the RD design may be credible for the subpopulation of firms located near the threshold, but it may not reflect the overall advantages accrued to firms that are located farther from or at the extremes on the scale of vote margin.

- To examine this possibility, I ran models that used varying definitions of 'close' elections as a binary dependent variable. In Model 1, an election was determined close (coded as 1) if the winner won by less than 5% of the total vote, whereas in Models 2, 3, and 4, the dependent variables are coded as 1 if the margin was less than 10%, 20%, and 35% respectively. Several explanatory variables are used. First, the total number of candidates is calculated in Number of Candidates. Next, the binary variable UR Victory takes a 1 if a candidate affiliated with the ruling United Russia party won; this indicator reflects the possibility that these elections were not truly competitive if United Russia candidates were more likely to win them. Next, the percentage of male candidates running and average age are captured with the Male Candidate and Average Candidate Age variables. The binary variable Incumbent Ran takes a 1 if any incumbent from the previous parliamentary convocation ran in the election. Lastly, the number of voters on the voter list is logged and measured in Number of Voters.

- Because of the binary dependent variables, I use logit models with robust standard errors clustered on the regional level in all specifications. Several interesting results emerge. First, as expected, a greater number of candidates running is associated with a greater likelihood of an election being competitive. This is intuitively plausible, seeing that the presence of multiple candidates can eat into the vote share of the potential winner and spread votes between more viable politicians. Secondly, politicians from the ruling United Russia party are less likely to win in competitive elections. The fact that close elections are not UR strongholds, and UR politicians do not have any disproportionate advantage in winning these races, provides additional support to the validity of using the close elections RD design in the Russian context. However, besides the results for these two variables, no other point estimates are statistically significant. Close elections look remarkably similar to non-competitive ones along a number of important dimensions, which should increase our ability to make generalizations about the local average treatment effect.

Table B5: Determinants of Competitive Elections

	Close 5%	Close 10%	Close 20%	Close 35%
	(1)	(2)	(3)	(4)
Number of Candidates	0.243***	0.281***	0.357***	0.462***
	(0.061)	(0.061)	(0.061)	(0.074)
UR Victory	−1.685***	−1.629***	−1.795***	−1.672***
	(0.143)	(0.133)	(0.102)	(0.109)
Male Candidate %	−0.419	−0.253	−0.304	−0.475*
	(0.331)	(0.284)	(0.227)	(0.266)
Average Candidate Age	0.108	0.078	0.157	0.230
	(0.452)	(0.386)	(0.391)	(0.358)
Incumbent Ran	−0.047	−0.075	−0.108	0.028
	(0.126)	(0.103)	(0.101)	(0.112)
Midterm Election	−0.034	−0.094	−0.125	−0.158
	(0.270)	(0.249)	(0.207)	(0.189)
Number of Voters (logged)	−0.130	−0.079	−0.076	−0.128
	(0.097)	(0.116)	(0.109)	(0.124)
Constant	−0.487	−0.361	0.167	1.105
	(1.915)	(1.940)	(2.003)	(2.090)

*p<0.1; **p<0.05; ***p<0.01
Logit models used for binary outcomes. All models use robust standard errors clustered on the region level. Dependent variables reflect different cutoffs for defining competitive elections.

Multiple Thresholds (Chapter 5)

- An additional robustness check is to test how the main specifications perform using multiple values of bandwidths. This approach helps identify any dependence on a specific sample or threshold that could be driving the results. Figures B2 and B3 show the estimates for two specifications, the local-linear model and the close margin model, with the solid line depicting the treatment effect and 95% confidence interval shown in the shaded area. The effects are estimated at thresholds in the range of a 1% to a 10% margin of victory in 0.5% intervals. In the models using the smaller bandwidths, the effects are somewhat larger and noisier, but become more stable and consistently significant (as indicated by the 95% confidence interval not intersecting with the 0 axis) as the sample size grows. The figures offer additional support to the result that a firm director winning election office increases revenue and profitability for his or her affiliated firms.

Figure B2: Multiple Thresholds - Total Revenue

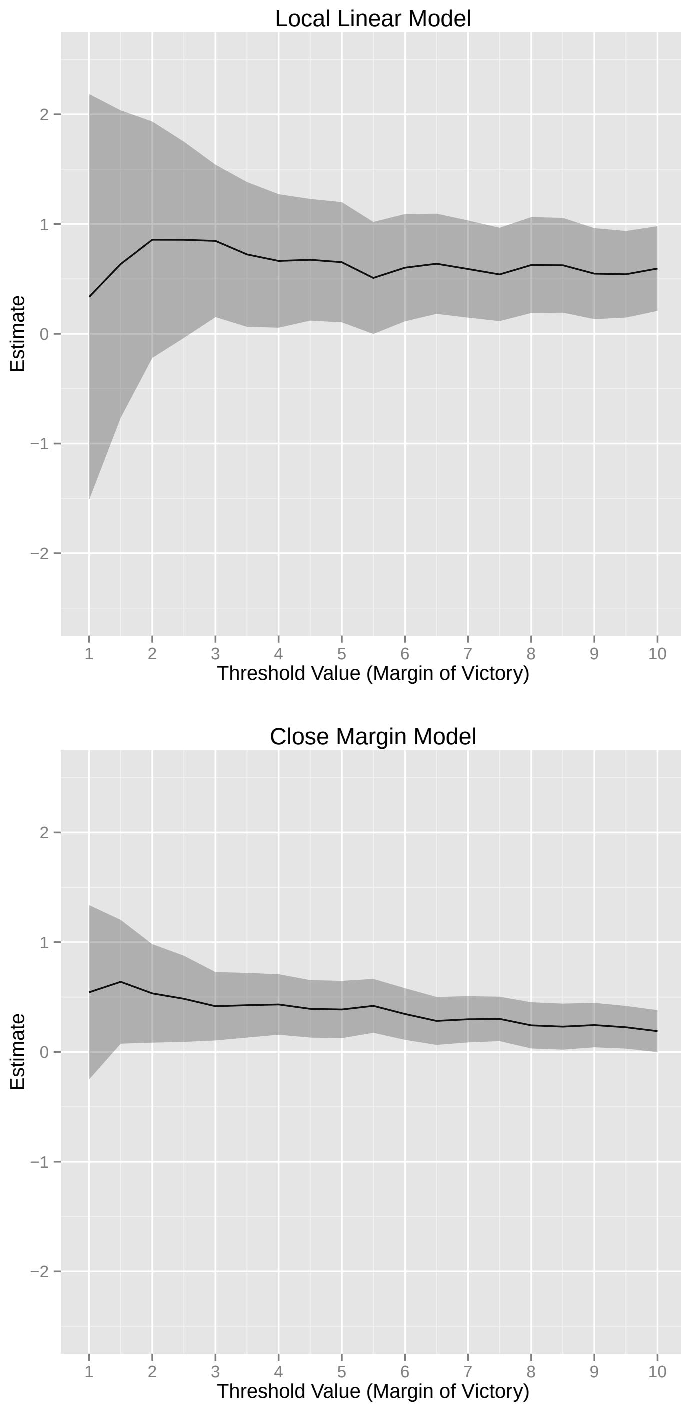
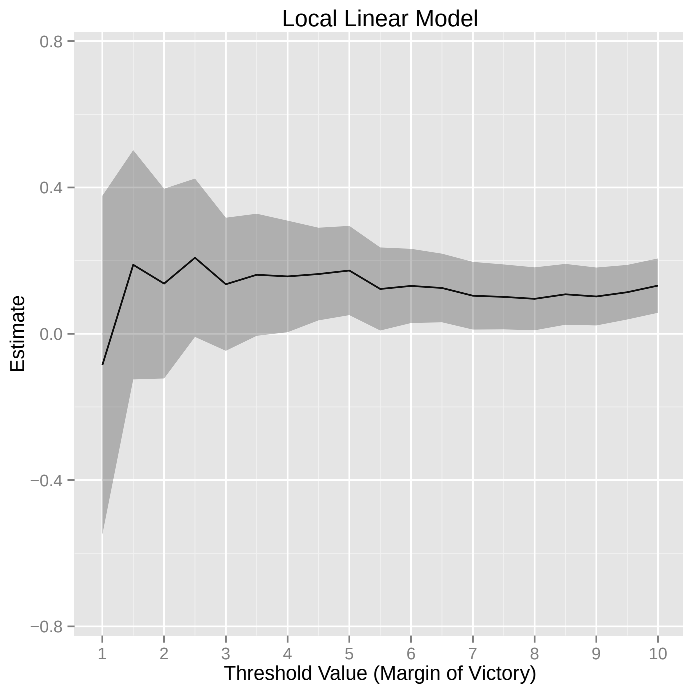
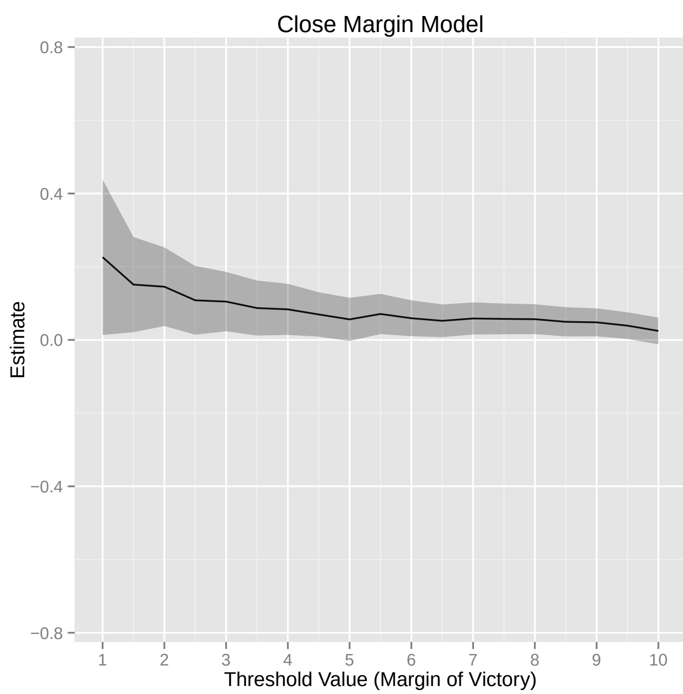


Figure B3: Multiple Thresholds - Change in Profit Margin





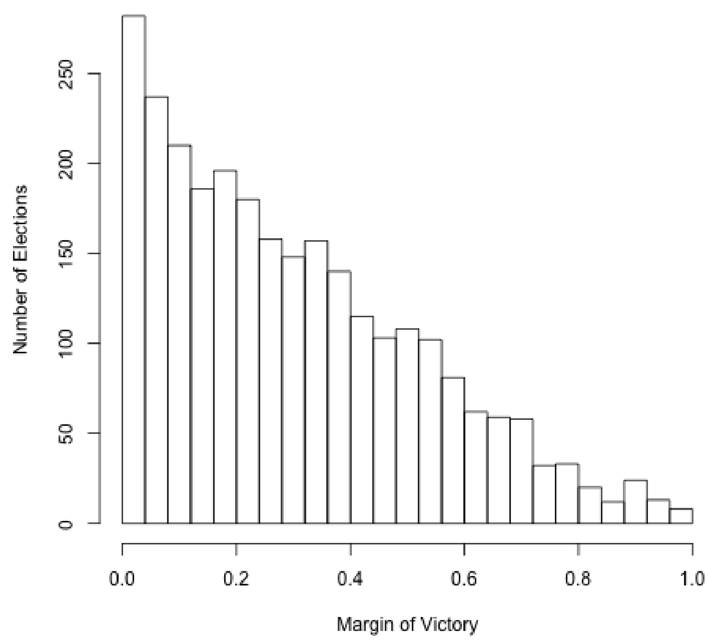
Summary Statistics (Chapter 5)

- Table B6 presents Summary Statistics for all of the variables used in the regressions in Chapter 5.
- Figure B4 is a histogram of the margin of victory for candidates in SMD elections.

Table B6: Summary Statistics

Statistic	N	Mean	St. Dev.	Min	Max
Age	12,113	3.810	0.252	3.045	4.394
Male	12,113	0.862	0.345	0	1
Incumbent	12,113	0.157	0.363	0	1
United Russia Party	12,113	0.195	0.396	0	1
Systemic Opposition	12,113	0.321	0.467	0	1
Other Party	12,113	0.083	0.276	0	1
Company Director	12,113	0.163	0.369	0	1
Previous Vote Share	2,152	0.326	0.214	0.000	0.956
Foreign-Owned	2,720	0.034	0.182	0	1
State-Owned	2,720	0.063	0.243	0	1
Systemic Firm	2,720	0.010	0.099	0	1
Agriculture	2,720	0.128	0.334	0	1
Construction	2,720	0.088	0.283	0	1
Natural Resources	2,720	0.032	0.175	0	1
Immobile Assets	2,720	0.629	0.483	0	1
Total Assets (logged), Start Year	2,720	11.140	2.368	2.079	19.916
Revenue (logged), Start Year	2,714	11.250	2.341	1.609	19.691
Profit Margin, Start Year	2,720	−0.010	0.479	−9.821	0.997
Leverage, Start Year	2,716	0.634	0.543	0.00002	9.364
Tax Rate, Start Year	1,859	0.262	0.246	0.00004	1.979
State Contracts (logged), Start Year	225	15.758	2.744	10.278	23.502
Total Assets (logged), End Year	2,720	11.688	2.480	1.099	20.295
Revenue (logged), End Year	2,628	11.736	2.427	1.099	20.263
Profit Margin, End Year	2,621	−0.033	0.440	−7.688	0.909
Leverage, End Year	2,683	0.669	0.577	0.0001	9.360
Tax Rate, End Year	1,656	0.214	0.211	0.00002	1.976
State Contracts (logged), End Year	1,042	16.255	3.255	4.197	25.549
Democracy Level (Region)	2,719	30.178	5.699	17	42
Percentage of UR Seats	2,720	0.614	0.186	0.172	0.974
Regional GRP (logged)	2,720	12.136	1.081	8.130	15.779
Natural Resources in Region	2,720	0.323	0.468	0	1
Sectoral Concentration	2,720	0.486	0.249	0.086	1.000
Number of Deputies from Sector	2,720	5.024	4.184	0	27

Figure B4: Candidate Margin of Victory (%)



Additional Robustness Checks (Chapter 5)

- Tables B7 and B8 present regressions examining the effect of winning office on changes in revenue and profit margin respectively in an identical format to those in main tables in Chapter 5, except only candidates that served as director or deputy director of their firms are included. The main results are robust to this restricting of the sample, though some of the standard errors are larger due to the sample size being reduced.

- Tables B9 and B10 instead restrict the sample to candidates that only ran in the plurality races. This could be a concern given that in the main regressions, I dropped all candidates which lost in the plurality races but took a spot through the party list system. We see that the point estimates on change in revenue are somewhat larger and still statistically significant. Similarly, restricting to only SMD candidates robust results on change in profit margin with this reduced sample.

Table B7: Political Connections and Firm Revenue, Only Directors

Control Function:	None				Local Linear				Cubic
Bandwidth:	Global		2%	3%	5%		10%		20%
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
District Win	0.313****	0.232***	0.421*	0.338*	0.483	0.537*	0.509**	0.522*	0.612*
	(0.069)	(0.083)	(0.222)	(0.172)	(0.334)	(0.315)	(0.210)	(0.291)	(0.354)
Bandwidth:	0.8	0.8	0.02	0.03	0.05	0.05	0.1	0.1	0.2
Firm and cand. covariates:	No	Yes	No	No	No	Yes	No	Yes	Yes
Year, Region, Sector FE:	No	Yes	No	No	No	No	No	Yes	Yes
Observations	2,016	2,016	75	112	170	170	362	362	787

*p<0.1; **p<0.05; ***p<0.01
All models use robust standard errors clustered on the candidate level as well as the lagged value for the outcome as a covariate. Columns 1-2 present OLS results using the full sample, with and without firm and candidate controls and year, sector and region fixed effects. Columns 3-4 also use OLS specifications, but restrict the bandwidth to close winning vote margins of 2% and 3% respectively. Columns 5-8 are RD specifications with a local-linear control for candidate winning vote margin, with and without controls and fixed effects. The bandwidth used in Columns 5-7 is a 10% margin of victory, while Column 8 uses a 20% to expand the number of observations as to not introduce bias into the estimation with the cubic polynomial. Firm and candidate controls include age, gender, incumbent status, membership in the ruling United Russia party, a binary indicator for state ownership, a binary indicator for foreign ownership, and logged total assets in the year prior to the election. Year fixed effects capture the year the outcome variables are measured, region fixed effects capture the region where the election was held, and sector fixed effects capture a firm's two-digit OKVED economic category.

Table B8: Political Connections and Firm Profit, Only Directors

Control Function:	None				Local Linear				Cubic
Bandwidth:	Global		2%	3%	5%		10%		20%
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
District Win	0.005	0.019	0.161**	0.121**	0.192**	0.192**	0.143***	0.129*	0.207*
	(0.022)	(0.022)	(0.075)	(0.054)	(0.090)	(0.094)	(0.053)	(0.076)	(0.115)
Bandwidth:	0.8	0.8	0.02	0.03	0.05	0.05	0.1	0.1	0.2
Firm and cand. covariates:	No	Yes	No	No	No	Yes	No	Yes	Yes
Year, Region, Sector FE:	No	Yes	No	No	No	No	No	Yes	Yes
Observations	2,001	2,001	75	112	170	170	361	361	783

*p<0.1; **p<0.05; ***p<0.01
All models use robust standard errors clustered on the candidate level. Columns 1-2 present OLS results using the full sample, with and without firm and candidate controls and year, sector and region fixed effects. Columns 3-4 also use OLS specifications, but restrict the bandwidth to close winning vote margins of 2% and 3% respectively. Columns 5-8 are RD specifications with a local-linear control for candidate winning vote margin, with and without controls and fixed effects. The bandwidth used in Columns 5-7 is a 10% margin of victory, while Column 8 uses a 20% to expand the number of observations as to not introduce bias into the estimation with the cubic polynomial. Firm and candidate controls include age, gender, incumbent status, membership in the ruling United Russia party, a binary indicator for state ownership, a binary indicator for foreign ownership, and logged total assets in the year prior to the election. Year fixed effects capture the year the outcome variables are measured, region fixed effects capture the region where the election was held, and sector fixed effects capture a firm's two-digit OKVED economic category.

Table B9: Political Connections and Firm Revenue, Only SMD Candidates

Control Function:	None				Local Linear				Cubic
Bandwidth:	Global		2%	3%	5%		10%		20%
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
District Win	0.321****	0.322****	0.706***	0.531***	0.824**	0.766**	0.748****	0.748**	0.988***
	(0.065)	(0.075)	(0.230)	(0.174)	(0.351)	(0.335)	(0.219)	(0.288)	(0.364)
Bandwidth:	0.8	0.8	0.02	0.03	0.05	0.05	0.1	0.1	0.2
Firm and cand. covariates:	No	Yes	No	No	No	Yes	No	Yes	Yes
Year, Region, Sector FE:	No	Yes	No	No	No	No	No	Yes	Yes
Observations	2,094	2,094	70	109	173	173	369	369	781

*p<0.1; **p<0.05; ***p<0.01

All models use robust standard errors clustered on the candidate level as well as the lagged value for the outcome as a covariate. Columns 1-2 present OLS results using the full sample, with and without firm and candidate controls and year, sector and region fixed effects. Columns 3-4 also use OLS specifications, but restrict the bandwidth to close winning vote margins of 2% and 3% respectively. Columns 5-8 are RD specifications with a local-linear control for candidate winning vote margin, with and without controls and fixed effects. The bandwidth used in Columns 5-7 is a 10% margin of victory, while Column 8 uses a 20% to expand the number of observations as to not introduce bias into the estimation with the cubic polynomial. Firm and candidate controls include age, gender, incumbent status, membership in the ruling United Russia party, a binary indicator for state ownership, a binary indicator for foreign ownership, and logged total assets in the year prior to the election. Year fixed effects capture the year the outcome variables are measured, region fixed effects capture the region where the election was held, and sector fixed effects capture a firm's two-digit OKVED economic category.

Table B10: Political Connections and Firm Profit, Only SMD Candidates

Control Function:	None				Local Linear				Cubic
Bandwidth:	Global		2%	3%	5%		10%		20%
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
District Win	0.007	0.038*	0.153*	0.104*	0.186*	0.187*	0.133**	0.109	0.226*
	(0.022)	(0.022)	(0.082)	(0.054)	(0.097)	(0.099)	(0.055)	(0.072)	(0.127)
Bandwidth:	0.8	0.8	0.02	0.03	0.05	0.05	0.1	0.1	0.2
Firm and cand. covariates:	No	Yes	No	No	No	Yes	No	Yes	Yes
Year, Region, Sector FE:	No	Yes	No	No	No	No	No	Yes	Yes
Observations	2,080	2,080	69	108	172	172	366	366	776

*p<0.1; **p<0.05; ***p<0.01

All models use robust standard errors clustered on the candidate level. Columns 1-2 present OLS results using the full sample, with and without firm and candidate controls and year, sector and region fixed effects. Columns 3-4 also use OLS specifications, but restrict the bandwidth to close winning vote margins of 2% and 3% respectively. Columns 5-8 are RD specifications with a local-linear control for candidate winning vote margin, with and without controls and fixed effects. The bandwidth used in Columns 5-7 is a 10% margin of victory, while Column 8 uses a 20% to expand the number of observations as to not introduce bias into the estimation with the cubic polynomial. Firm and candidate controls include age, gender, incumbent status, membership in the ruling United Russia party, a binary indicator for state ownership, a binary indicator for foreign ownership, and logged total assets in the year prior to the election. Year fixed effects capture the year the outcome variables are measured, region fixed effects capture the region where the election was held, and sector fixed effects capture a firm's two-digit OKVED economic category.

Coarsened Exact Matching (Chapter 5)

- Through a technique called coarsening, Coarsened Exact Matching (CEM) assigns continuous values to a small number of categories for each variable, thereby creating bins on which to match upon. Observations are then matched exactly according to their value within each bin, and weights are assigned to the control group observations to allow for the estimation of average treatment effects. This allows for a balancing of the treatment and control groups as completely as possible, since treatment group cases that have no corresponding control-group member in their bins are eliminated. The choice of smaller bin sizes leads to improved balance but at the cost of a decrease in the number of observations available to match. Notwithstanding this trade-off, CEM matches observations based on all properties of their covariate distributions, not just differences in means, and reduces bias, inefficiency and causal estimation error.

- I first restricted the sample to include only firms that were located in the regions where director candidates ran for office and that reported financial data in the years that these candidates ran for and left office (as above for losing firms, this would be the final year of the legislature convocation for which their director ran). This limitation enforces that the directors of matched firms would have also had the opportunity to run for office, but chose not to.

- I coarsened the variable measuring logged total assets into 75 bins. This coarsening takes advantage of breadth of the firms available in full control dataset and allows for very precise matching on firm size.[11] Firms were also matched on five other binary indicators: the presence of state ownership, open joint-stock company status, closed joint-stock company status, and the availability

[11]Results are robust to both smaller and larger bin sizes for total assets

of balance sheets in years corresponding to the first and last year a treated firm would have had political representation in a regional parliament. The original sample contained roughly 416,000 untreated and between 200 and 1500 treated observations (depending on the bandwidth cutoff used). Before matching, significant differences existed between the unmatched sample of firms from SPARK and each of the two treatment groups. Firms that contested elections, regardless if they won or lost, had greater total assets, were more likely to have state-ownership, and more likely to be an open join-stock company rather than a closed joint-stock company. After conducting the CEM procedures, I was able to construct a matched sample that was considerably more balanced on each of these covariates. The average overall $\mathcal{L}$ imbalance score between the six unmatched and treated samples was 1. After matching we retained roughly 80% of the treated units in each sample, a return an average overall $\mathcal{L}$ imbalance score of 0.347, or an large average imbalance reduction of 65%.

- Tables B11-B16 present the full balance tables for the CEM matching procedures. Each table is divided into two panels. The left panel presents differences-in-means and p-value from a two-sided t-test between the unmatched and treated units, that is, the pre-matched sample. The right panel also presents the differences in means, but after the CEM procedure has matched and weighted the samples. The $\mathcal{L}$ imbalance statistics are given for both the unmatched and matched samples as an overall metric of the improvements the CEM procedure offers. Tables B11-B13 show imbalance for the treatment of a firm winning office, with the treated sample being limited by bandwidths of 10%, 20% and 100% respectively (how much firm directors won elections by). Tables B14-B16 are identical, except that the treatments there are whether a firm contested but lost an election, with each table presenting samples limited by 10%, 20% and 100% vote margin in defeat.

Table B11: Covariate Balance in Full and Matched Samples, Winning Firms - Bandwidth = 0.1

		Panel A				Panel B			
	Sample:	Full Sample				Matched Sample			
	Weights:	No Weights				Weighted			
	Variable	Unmatched	Treated	Diff.	p	Matched	Treated	Diff.	p
1	Total Assets (logged)	8.44	11.32	-2.88	0.00	11.14	11.22	-0.08	0.57
2	State-Owned	0.03	0.08	-0.06	0.00	0.05	0.05	0.00	1.00
3	Open Joint-Stock	0.05	0.37	-0.32	0.00	0.38	0.38	0.00	1.00
4	Closed Joint-Stock	0.84	0.54	0.30	0.00	0.57	0.57	0.00	1.00
5	Start Year Matched				No				Yes
6	End Year Matched				No				Yes
7	Observations	416606	224			18764	208		
8	L1 Statistic				1				0.37

Table B12: Covariate Balance in Full and Matched Samples, Winning Firms - Bandwidth = 0.2

		Panel A				Panel B			
	Sample:	Full Sample				Matched Sample			
	Weights:	No Weights				Weighted			
	Variable	Unmatched	Treated	Diff.	p	Matched	Treated	Diff.	p
1	Total Assets (logged)	8.44	11.38	-2.93	0.00	11.16	11.33	-0.17	0.09
2	State-Owned	0.03	0.06	-0.03	0.01	0.04	0.04	0.00	1.00
3	Open Joint-Stock	0.05	0.39	-0.33	0.00	0.38	0.38	0.00	1.00
4	Closed Joint-Stock	0.84	0.55	0.29	0.00	0.57	0.57	0.00	1.00
5	Start Year Matched				No				Yes
6	End Year Matched				No				Yes
7	Observations	416606	458			35655	435		
8	L1 Statistic				1				0.36

Table B13: Covariate Balance in Full and Matched Samples, Winning Firms - Bandwidth = 1.0

		Panel A				Panel B			
	Sample:	Full Sample				Matched Sample			
	Weights:	No Weights				Weighted			
	Variable	Unmatched	Treated	Diff.	p	Matched	Treated	Diff.	p
1	Total Assets (logged)	8.44	11.99	-3.55	0.00	11.75	11.92	-0.18	0.00
2	State-Owned	0.03	0.04	-0.02	0.00	0.04	0.04	0.00	1.00
3	Open Joint-Stock	0.05	0.42	-0.37	0.00	0.42	0.42	0.00	1.00
4	Closed Joint-Stock	0.84	0.53	0.31	0.00	0.54	0.54	0.00	1.00
5	Start Year Matched				No				Yes
6	End Year Matched				No				Yes
7	Observations	416606	1478			92432	1419		
8	L1 Statistic				1				0.3

Table B14: Covariate Balance in Full and Matched Samples, Losing Firms - Bandwidth = 0.1

		Panel A				Panel B			
	Sample:	Full Sample				Matched Sample			
	Weights:	No Weights				Weighted			
	Variable	Unmatched	Treated	Diff.	p	Matched	Treated	Diff.	p
1	Total Assets (logged)	8.44	10.70	-2.26	0.00	10.61	10.64	-0.03	0.84
2	State-Owned	0.03	0.09	-0.06	0.00	0.09	0.09	0.00	1.00
3	Open Joint-Stock	0.05	0.39	-0.33	0.00	0.37	0.37	0.00	1.00
4	Closed Joint-Stock	0.84	0.52	0.33	0.00	0.54	0.54	0.00	1.00
5	Start Year Matched				No				Yes
6	End Year Matched				No				Yes
7	Observations	416606	217			16264	205		
8	L1 Statistic				1				0.39

Table B15: Covariate Balance in Full and Matched Samples, Losing Firms - Bandwidth = 0.2

		Panel A				Panel B			
	Sample:	Full Sample				Matched Sample			
	Weights:	No Weights				Weighted			
	Variable	Unmatched	Treated	Diff.	p	Matched	Treated	Diff.	p
1	Total Assets (logged)	8.44	10.52	-2.08	0.00	10.34	10.47	-0.12	0.23
2	State-Owned	0.03	0.09	-0.07	0.00	0.08	0.08	0.00	1.00
3	Open Joint-Stock	0.05	0.36	-0.31	0.00	0.36	0.36	0.00	1.00
4	Closed Joint-Stock	0.84	0.53	0.31	0.00	0.56	0.56	0.00	1.00
5	Start Year Matched				No				Yes
6	End Year Matched				No				Yes
7	Observations	416606	485			37763	463		
8	L1 Statistic				1				0.37

Table B16: Covariate Balance in Full and Matched Samples, Losing Firms - Bandwidth = 1.0

		Panel A				Panel B			
	Sample:	Full Sample				Matched Sample			
	Weights:	No Weights				Weighted			
	Variable	Unmatched	Treated	Diff.	p	Matched	Treated	Diff.	p
1	Total Assets (logged)	8.44	10.23	-1.78	0.00	10.14	10.21	-0.07	0.31
2	State-Owned	0.03	0.09	-0.06	0.00	0.08	0.08	0.00	1.00
3	Open Joint-Stock	0.05	0.33	-0.27	0.00	0.32	0.32	0.00	1.00
4	Closed Joint-Stock	0.84	0.58	0.27	0.00	0.59	0.59	0.00	1.00
5	Start Year Matched				No				Yes
6	End Year Matched				No				Yes
7	Observations	416606	1140			92077	1107		
8	L1 Statistic				1				0.33