A Theory of Businessperson Candidacy

Many strategies are available for firms to build political influence. They can make contributions to political campaigns, lobby elected officials to get their voices heard, or in weak institutional settings, even buy laws directly from politicians. Why then would a businessperson run for political office, when so many less expensive (and potentially just as influential) avenues are available? This chapter develops an original theory to address this puzzle. I begin by outlining the various strategies firms employ in the political arena, drawing a distinction between indirect strategies (where politicians act as intermediaries in representing firms) and direct strategies (where politicians are employees of the firm). I then introduce and explore how businessperson candidacy, an often overlooked example of the direct strategy variety, functions in practice. Having a firm director run for office produces an unparalleled set of political benefits but with significant financial and time-related costs.

Firms face tough decisions about which of these strategies to choose. Although cheaper and more accessible, indirect strategies such as lobbying and campaign contributions provide no guarantee that the politician targeted will not renege on the bargain and cease representing a firm’s interests. Standard solutions to solving this type of credible commitment problem in market settings, such as contracts, repeated interactions, or reputation, often fail to gain traction in the political arena. Even empowering the median voter – by strengthening democracy and electoral accountability – fails to ensure that politicians will stick to the promises they make, whether they be to interest groups or constituents as a whole.
Running for elected office helps solve this commitment problem. By removing the need for political intermediaries, businessperson candidacy best aligns the incentives between active politicians and firm management. Sending a director to work in government exemplifies an in-house solution to achieving political access that mitigates agency loss, a way to vertically integrate corporate political activity. 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.

This logic holds that we should see a greater incidence of businessperson candidacy when the risk of politician shirking increases. This chapter then derives testable hypotheses to identify the conditions under which firms face the greatest level of uncertainty about the trustworthiness of their politicians. First, I argue that greater economic competition increases the likelihood that rival firms will make competing offers and undermine the effectiveness of indirect strategies. Businesspeople run for office in response to perceived threats from other large competitors that can persuade politicians to defect from other agreements. The drive to place directors in elected office at times resembles an arms race: firms fear their rivals gaining clearcut advantages through their own direct representation and match their entry into elections. Businessperson candidacy becomes a best response to other firms using the same strategy.

Second, strong political parties discipline shirking by legislators and ensure that exchanges between interest groups and politicians are enforced. When parties are weak, businessperson candidacy gains appeal as an effective means to circumvent unreliable, unconstrained politicians. Finally, businesspeople must also pay sizable costs in order to win electoral campaigns. Firms with larger financial assets and workforces can afford paying the cost of running for office, as can those located in poorer regions where the expenditures required to build voter support and win elections are lower. Although ego motivations and personal characteristics certainly drive some powerful businesspeople to seek office, the overarching concern in running for office stems from a need to protect firm political interests. Holding elected office only becomes an attractive corporate political strategy when more conventional avenues lose their efficacy and provide little payoff for a firm’s bottom line.
1.1 INDIRECT STRATEGIES: POLITICAL ACCESS THROUGH INTERMEDIARIES

Two types of strategies have historically dominated academic studies on corporate political activity: making campaign contributions and lobbying officials.¹ That focus is not unwarranted. The sums of money devoted to both are simply enormous. Lobbying expenditures in the United States regularly exceed $2 billion every year,² while interest group activity in Europe³ and China⁴ does not lag too far behind. In countries that allow private financing of elections, total campaign contributions can reach into the billions.⁵ Firms considering the decision to engage in politics often begin by considering these two approaches.⁶

Both are examples of what I term indirect corporate political strategies. Firms contribute money, information, and votes to politicians in exchange for access and influence.⁷ The politician then becomes an intermediary and advocates on the firm’s (or interest group’s) behalf to secure desired policies. The key point, discussed in full in the next section, is that indirect strategies involve firms delegating representation to a third party. Within the standard principal–agent framework, firms act as principals who commission politicians to work on their behalf as agents.

¹ Coen, Grant, and Wilson (2012).
² Drutman (2015b).
³ Recent estimates on lobbying the European parliament suggest that €1 billion is now being spent on over 30,000 lobbyists. (Traynor 2014).
⁴ Thousands of trade associations now vie for political influence at all levels of the Chinese government (Kennedy, 2009).
⁵ It is not just the United States that is experiencing huge amounts of money flowing into elections. Countries in the developing world such as Kenya, India, and Indonesia have seen a stupendous increase in campaign expenditures, largely financed through corporate donations (Quraishi and Van Der Staak 2015, Latif Dahir 2017).
⁶ Markus and Charnysh (2017) describe a somewhat wider array of strategies available to the politically interested ultra-rich: for example, bankrolling political parties and acquiring media outlets. Since the median firm director in most countries cannot afford these expenditures, this chapter narrows the discussion of indirect strategies to those more economically feasible.
⁷ See Hillman and Hitt (1999). A fine line exists between indirect strategies and outright bribery. For example, Harstad and Svensson (2011) view the two as substitutable, contingent on the level of development and enforcement in a country. Though legal in most countries, indirect strategies are often strictly regulated. Firms are restricted with regards to the type and amount of contributions that can be made (Norris and Van Es, 2016), and must report their contacts with politicians to try and allay concerns that interest groups and politicians are engaged in corruption.
1.1.1 Campaign Contributions

The first indirect strategy involves firms providing donations to candidates’ campaign war chests. Winning and holding elected office often depends on one’s ability to raise resources from private companies. This may be especially true in countries with less programmatic competition between political blocs, where large amounts of cash are needed to directly buy off voters. Campaign contributions can take multiple forms. Financial donations help campaigns buy advertising, pay staff, and distribute materials. Firms can also mobilize their employees to vote in favor of candidates and parties.

Firms often expect a return on their political investment once their targeted politician wins elected office. Donating to campaigns is thought to benefit firms in several ways. The most cynical of readings holds that companies can directly exchange contributions for policy through a quid pro quo. Politicians offer legislation, regulations, or state-backed financial instruments in exchange for resources they can use to get (re)elected. Although early work pushed back against the idea that money can buy policy, increasingly sophisticated research designs suggest that the appeal of entering a quid pro quo relationship often motivates firms to donate to campaigns. Evidence from Brazil and Russia demonstrates that contributing firms enjoy greater access to state contracts and preferential finance. Investors also appear to reward contributing firms by inflating their stock price in anticipation of future political benefits.

Although Russian law allows both individuals and firms to donate within limits as long as contributions are reported, Barsukova and Zvyagintsev (2006) document massive sums of illicit money funneled to candidates from firms looking to make a “political investment” in policy. Another view holds that firms donate money to ensure consistent access to politicians. They may not receive any concrete benefits but can hedge against the possibility of unfavorable policies and defend their domain against threats from rivals or even the government. But either way, firms do not make contributions altruistically: justifying this

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8 Snyder Jr (1990); Grier, Munger, and Roberts (1994).
10 McMenamin (2012).
13 Cooper, Gulen, and Ovtchinnikov (2010).
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type of expenditures to shareholders requires a reasonable expectation of receiving something in return.

1.1.2 Lobbying

After elections have been decided, firms mostly move onto the second type of indirect strategy: lobbying. At least in the United States, the resources spent on lobbying governments generally dwarf those spent through campaign contributions. Drutman (2015a) reports an 85 percent increase in money spent on US lobbyists during the 2000s, reaching over $2 billion by 2010. Firms account for three-quarters of that spending, exceeding the money they donated to campaigns by a factor of twelve.

Why is lobbying often more appealing for so many firms? First, whereas contributions help lawmakers fund their campaigns, lobbying provides a resource perhaps more essential and influential during the actual policymaking process: information. Lobbyists perform important research functions for legislators, helping them understand and evaluate the political and economic consequences of proposed legislation. Lob- bying also takes place behind closed doors, and even with some countries requiring documentation of contacts with politicians, the public rarely finds out about the content of those meetings. Perhaps most importantly, lobbying comes with less uncertainty: firms can be sure that the politician they are investing in has real political clout, as opposed to supporting a candidate who has yet to take office.

Lobbying can take a variety of forms. Larger companies look to develop in-house capacity, taking on government relations experts to work full-time to promote their interests. Companies with fewer resources outsource lobbying to professional teams. Finally, some firms band together into trade associations that pool their resources and present a unified voice on behalf of an industry or the greater business community. Very few countries impose limits on the amount of resources that can be spent on generating the policy-relevant information that most lobbyists provide. This can lead to extraordinary sums being pumped into the policymaking process.

16 Hall and Deardorff (2006); Nownes (2013).
17 Drutman (2015a).
18 Coen, Grant, and Wilson (2012).
Indirect Strategies: Political Access through Intermediaries

Firms absorb the costs of lobbying because it helps their bottom line.\(^{19}\) US firms have had notable success achieving policy aims by lobbying the government individually.\(^{20}\) Benefits include lower taxes, bailouts, favorable energy regulations, and preferential labor policies.\(^{21}\) Lobbying through associations also helps companies learn about rivals who participate in the same organizations.

Russian firms similarly look to lobbying as an effective strategy to build influence. Even without official legislation to sanction and regulate lobbying, firms openly engage politicians over the drafting of travel regulations, car sales, and fertilizer taxes in the State Duma, Russia’s national parliament.\(^{22}\) A recent investigative piece by Meduza, an independent media outlet, describes “armies of fixers” descending on Duma deputies and ministry officials to push for their corporate financiers’ interests.\(^{23}\) Powerful firms, such as those working in agriculture and natural resources, have won substantial individual concessions in recent years on the back of government relations strategies. Many firms also lobby at lower levels of government, noting in surveys that such activism can yield important policy dividends.\(^{24}\) For example, roughly 17 percent of firms from eight cities across Russia answered that they “sometimes” or “always” were able to influence legislation at the regional level.\(^{25}\) Indirect strategies hold general appeal among Russian firms, even if the precise regulations governing them are somewhat underdeveloped.

In these contexts, firms can cultivate an array of clientelistic relationships, whereby lawmakers come to depend on special interests for information, expertise, and sometimes even financial assistance to govern effectively. Japan’s dalliance with the “iron triangle” of political parties, bureaucrats, and large corporations exemplifies this type of mutually supportive, interlocking relationship.\(^{26}\) The friendly policy climate that emerges can prove to be a much larger, more sustained boon for firm interests than one-off transactions about specific needs.

This somewhat ideal type of business–government relations presupposes the existence of numerous factors conducive to cooperation

\(^{19}\) Hill et al. (2013).
\(^{20}\) Gordon and Hafer (2007).
\(^{22}\) Denisov (2010).
\(^{23}\) Bekbulatova (2018).
\(^{24}\) Reuter and Turovsky (2014); Marques, Govorun, and Pyle (2014).
\(^{25}\) Frye (2002).
\(^{26}\) Johnson (1982); Colignon and Usui (2001).
between such disparate actors. For one, policymakers must be willing to extend a “helping hand” to business actors, rather than a “grabbing hand.” In countries such as Russia, this assumption should not be taken lightly, as business has much to fear from a newly resurgent, predatory set of government officials, bent on rent-seeking more than promoting economic growth. There is no shortage of surveys and anecdotes demonstrating the difficulties Russian businesses face in negotiating with state actors on equal terms. Building such mutually beneficial ties requires leverage, something in short supply among firms not deeply embedded in official networks. Below, I discuss in much greater detail why firms are just as often taken advantage by policymakers as helped by them.

Finally, though many firms employ professional lobbyists to build political inroads, many directors express an often healthy degree of skepticism about the difference between lobbying and bribery. A survey of 153 experts in Tula Oblast in 2008 uncovered that the majority viewed lobbying public officials as a type of corruption and thus often very negatively. Pushing one’s personal financial interests through intermediaries behind the scenes, no matter whether money was exchanged, acquires a shadowy overtone and can carry both reputation and legal risks.

1.2 DIRECT STRATEGIES

Firms also can opt to forgo the use of political intermediaries. In contrast to lobbying and making contributions, direct political strategies cut out the middleman by blurring, and in many instances erasing, the line between the politician and the firm. The goal behind direct strategies is to better align incentives between the two actors. When politicians become employees of the firm (or at a minimum financially invested), they benefit monetarily when the firm’s performance excels.

1.2.1 Bringing Politicians On Board

Direct strategies generally come in several forms. First, current politicians may be invited to become employees or shareholders of the firm.

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29 Frye, Yakovlev, and Yasin (2009).
30 Murashhenkov (2009).
They might be appointed onto the board of directors, be offered ownership stakes, or brought on as informal consultants or advisors. Political connections constructed this way are widespread across a number of different contexts. Using a sample of forty-seven countries, Faccio (2006) estimates that approximately 3 percent of firms have some kind of connection to politicians. The hiring of current politicians is not limited to places with weak legal environments, as scholars have identified strong political ties among firms in Spain, Australia, and the United States.31

A growing body of literature shows that firms benefit immensely from taking on board active politicians. First, connected firms command superior information about the policymaking process, allowing them to better shape their engagement and anticipate future political action that could affect their activities.32 Perhaps more importantly, connected firms acquire powerful actors on the inside to act as their de facto lobbyists. Below I go into greater detail about the many levers politicians can pull to help firms. But on the whole, this type of relationship-building seems to generate a row of positive returns for firms, from improved access to state contracts, a lower cost of capital, and overall better operating returns.33

But offering current politicians a seat at the firm’s table can also backfire. Political connections can undermine a firm’s competitiveness, investment behavior, and ability to innovate.34 Politicians may not have the human capital or experience necessary to make the best decisions for firm interests. Ties are being built where none existed before, necessitating a steep learning curve on both sides and, possibly, costly negotiations. Since buying off politicians with firm management roles is illegal, politicians may require substantial contributions from firms to take the risk, and may threaten to withhold their influence if firms do not pay up. Given their superior bargaining position, they can more easily extract resources and engage in rent-seeking.35 Developing ties with current politicians is by no means a silver-bullet political strategy. Firms have much to lose by bringing unknown outsiders into the fold.

33 Goldman, Rocholl, and So (2013); Khwaja and Mian (2005); Boubakri et al. (2012); Amore and Bennedsen (2013); Li, Poppo, and Zhou (2008).
34 Desai and Olofsgard (2008).
Political connections can also be formed by hiring former politicians. Many countries around the world have rich traditions of powerful officials easily landing lucrative post-public employment in the private sector upon leaving their government work.\textsuperscript{36} In Japan, the word \textit{amakudari}, or “descent from heaven,” describes the time-honored practice of civil servants finding their way to jobs in large corporations, or for smaller players, the many upstream suppliers within the production chain.\textsuperscript{37} Their knowledge of the policymaking process and contacts with current regulators are incredibly beneficial for companies seeking political access. Other noted variants of the practice include the \textit{pantouflage} system in France (literally translated as “shuffling wearing indoor slippers”), which customarily works through school and university connections,\textsuperscript{38} and “parachute appointments” (\textit{nak-ha-san-in-sa}) in South Korea, the highly politicized positioning of politicians and bureaucrats into corporations.\textsuperscript{39}

These “revolving door” mechanisms, whereby ex-civil servants join both private and public companies, still rely on intermediaries, albeit fewer in number, to get policies done. As well-connected and capable as these formal officials may be, they still have to work through currently serving politicians to achieve any real policy aims. And again, companies that provide such golden parachutes, such as Japanese banks offering soft landings for officials from the Ministry of Finance and Bank of Japan, were saddled with more non-performing loans.\textsuperscript{40} The assignment of former bureaucrats to private companies is also managed top-down by government officials hoping to save troubled firms; evidence suggests the arrival of such political connections may do little to right the ship and correct bad firm performance.\textsuperscript{41} In Russia, Rastorguyev (2014) finds that officials are much more likely to be placed in state-owned enterprises, such as those operating in the natural resources and defense sectors, than they are in the private sector. Private firms have to rely on other avenues to build political capital.

\textsuperscript{36} Makkai and Braithwaite (1992); Gormley Jr (1979); Palmer and Schneer (2016).
\textsuperscript{37} Calder (1989); Mizoguchi and Van Quyen (2012).
\textsuperscript{38} Savage (1974).
\textsuperscript{39} Lee and Rhyu (2008).
\textsuperscript{40} Horiuchi and Shimizu (2001).
\textsuperscript{41} Yu and Main (2012).
1.2.2 Becoming Bureaucrats

Besides bringing outside politicians on board, firms may take a spin at the “reverse revolving door” and send their own employees to become bureaucrats within the executive branch. Winning appointments helps build direct representation within the bureaucracy, allowing the company to get firsthand input in how regulations are drafted and implemented. Over the last decade, activist shareholders such as the AFL-CIO have worked hard to expose the practice of big banks, such as Goldman Sachs, Citi, and Morgan Stanley, lavishing multimillion dollar bonuses on employees who enter government service. US tax law may have even incentivized the practice by allowing employees to hold onto their vested stock options after leaving their firms if they choose to enter government service. Defense contractors such as Northrop Grumman have been found to engage in similar incentive schemes. Company insiders take up new work at any number of government positions, from bankers becoming industry regulators in the United States or taking top policymaking positions in Latin America and Southeast Asia.

Placing employees inside the bureaucracy is no easy task. Arguments that businesspeople merit civil service appointments can often fall on deaf ears, especially under left-leaning governments or in settings where political control over the bureaucracy overrules bringing in certain private sector expertise or management skills. Many countries also employ complex meritocratic recruitment systems that narrow the range of positions open to private sector employees who have not passed required examinations and put in their time in government.

In the case of Russia, private companies have been thwarted as of late in their attempts to stock bureaucracies with their own representatives. One of the main centralizing reforms instituted during President Putin’s first two terms in office involved the cancellation of gubernatorial elections. Beginning in 2004, the top-level regional executives, or governors, were instead appointed by Moscow. In one fell swoop, the federal center acquired immense authority to dictate who got what positions, often opting for non-ideological candidates who toed the party line rather than

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42 Li and Liang (2015); Ferguson and Voth (2008).
43 Dayen (2015).
44 Fang (2013).
45 Brezis and Cariolle (2019).
46 Bowornwathana (2004); Phongpaichit and Baker (2004); Schneider (2010).
promote special interests. Barsukova (2011) writes that the new appointments were intended to demonstrate “who’s the boss” to leading financial groups in the regions. Many of these groups lost their roles as puppeteers over the executive branch and many doors into key regulatory agencies were simply slammed shut. Businesspeople were forced to look to other avenues to maintain their political influence, including financing campaigns to regional and municipal legislatures.

Data from the Russian regions support this story about business tending to stay away from the bureaucracy. Buckley and Reuter (2019) collect data on all 2,790 vice-governors serving in Russia’s regions between 2001 and 2012, including their occupational and educational background. Vice governors are powerful bureaucrats directly appointed by the governor, with responsibilities for key policy portfolios such as construction, housing, economic planning, healthcare, and education. Given their power to sign executive orders and oversee policy implementation, one might expect them to be prime targets of business lobbying, and where opportunities arise, for these roles to be actually filled by representatives of leading companies. A simple exercise to code their previous place of work before taking office uncovers that only 238 (or 8.5 percent) of these bureaucrats had come directly from the private sector. The vast majority had worked at lower level administrative bodies, such as mayor’s offices and specific departments. As influential as these positions may be, securing them may be more difficult than expected.

1.2.3 Businessperson Candidacy

The final direct strategy, businessperson candidacy, is this book’s main object of study. Businessperson candidacy denotes the practice of firms sending their own high-level employees (directors, trusted managers, or members of the board of directors) to contest elections and win positions within political institutions. Over the last two decades alone, active

47 Grashhenkov and Mejer (2016).
48 Medvedev (2010); Barsukova (2006).
49 I coded whether they had worked as a director or deputy director, or on the board of directors (either as chairperson or as a regular member) of a private or state-owned enterprise in their last place of work, according to official biographies or other public sources.
50 At times, the decision to develop the political connection lies with the government, and not the firm. 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,
businesspeople have run for top executive roles at the national level in countless places, winning elections in Ukraine, Finland, Argentina, Italy, Thailand, and the United States.

This book focuses much of its attention on businesspeople who vie for positions in the legislative branch. Businesspeople abound in legislative institutions. Chaisty (2013) documents that nearly half of deputies in the Russian State Duma worked previously in the private sector; formally these leaders are supposed to step back from their business empires upon taking office, but few do in reality. In China, a full 20 percent of the 11th National People’s Congress (2008–2012) are chairmen or CEOs of various companies. At lower levels, surveys of entrepreneurs found that 17 percent of respondents were members of People’s Congresses and 35 percent were members of the Chinese People’s Political Consultative Conference, a body similar to a regional advisory legislative house.

Winning a spot in a legislature also offers several advantages over developing connections within the bureaucracy. Legislators draft key economic policies, whereas bureaucrats interpret and implement them. Appointments to executive branch positions also can be fewer in number (compared to seats in a legislature) and often hinge more on one’s ability to govern rather than win over voters. Assuming responsibility for an entire administration also places much greater governing demands on businessperson politicians. Businesspeople take on full-time roles as policymakers, while many countries permit legislators to earn outside income and combine their legislative duties with other types of employment. Many high-level appointed positions may not be attractive for firm interests, especially if executives take on responsibility for foreign policy or areas less interesting to the business community.

We might expect that in more authoritarian regimes, the decision (and opportunity) to pursue public office comes down from top rather than from the bottom up. But many competitive authoritarian regimes encourage self-motivated competition among elites for legislative office (Blaydes, 2011). A key precondition for businessperson candidacy then is somewhat free access to the ballot, and accordingly a reasonable chance at winning elections. In the Conclusion, I go into greater depth about the types of political regimes where we would expect businessperson candidacy to hold greater appeal.

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51 Truex (2014).
52 Li, Meng, and Zhang (2006). See also Hou (2019) for work on this topic.
54 The level of government also may matter. In Chapter 6, I show evidence from municipalities in Russia that many of the same dynamics surrounding businesspeople in legislative office hold for those seeking to become mayor. See that chapter for more detailed discussion of the differences between businesspeople serving in the two branches.
How Businessperson Candidacy Helps Firms

The decision to send firm representatives into a legislature differs markedly from the other direct and indirect strategies discussed above. Anecdotal evidence from Russia paints an illuminating picture of just how powerful a seat in a legislature can be. First, when businesspeople personally occupy political positions, they enjoy unmatched ability to shape policy decisions. Businessperson deputies can draft laws to benefit their businesses and push through favorable sectoral regulations and legislation.\(^{55}\) Budget allocations, public investment decisions and economic development programs require approval of regional legislatures in Russia, who also enjoy the right to set several key tax rates, establish firm-specific loan guarantees and privatize state assets.\(^{56}\) Laws that serve narrow firm interests can easily be justified on the grounds that they “possess important social-economic significance for one’s district.”\(^{57}\) Deputy status also helps protect against legislation that “could raise their taxes, tie them in red tape, or threaten their property rights.”\(^{58}\)

Of particular interest is access to state contracts which provide a much more guaranteed source of revenue with an enforceable source of revenue.\(^{59}\) Business leaders often run for office “attracted by opportunities to gather information about upcoming government decisions,” with electoral success becoming a matter of “life or death” for local oligarchs.\(^{60}\) Legislative seats start to resemble a political “insurance policy” taken to ensure a business kingdom remains solvent in the face of raids and threats.\(^{61}\)

Much of a legislative’s direct policymaking influence in Russia revolves around committee life. The majority of a bill’s life is spent under careful discussion in commissions and committees that deputies are required to attend.\(^ {62}\) Throughout this work, committee chairpeople play the most prominent role, holding the power to call and lead meetings, distribute information and materials, provide patronage through jobs and mandates, and invite experts and interest groups to testify, among other activities. Given their high status, these positions are one of the main

\(^{55}\) Mereu (2003).

\(^{56}\) Medvedev (2010).

\(^{57}\) Chistyakova (2005).

\(^{58}\) Bush (2003).

\(^{59}\) Sakaeva (2014).

\(^{60}\) Medvedev (2010, 8).

\(^{61}\) Interview with Petr Panov, political scientist, Perm. October 3, 2013.

\(^{62}\) Molokaeva (2014).
avenues for securing spoils and perks.\textsuperscript{63} If an interest group wants to exert influence on a specific political issue, then getting a seat at the committee table, or at a minimum the attention of its members, is paramount.

Perhaps unsurprisingly, businessperson deputies in Russia gravitate to committees that oversee and regulate policy areas of interest to their firms. Using data on committee chairpeople and vice-speakers from Reuter and Robertson (2015), I find that 43 percent of the deputies holding these positions were businesspeople.\textsuperscript{64} These numbers rise when certain policy areas come into focus. Businessperson deputies chair 49 percent of budget committees, 56 percent of committees overseeing industrial policy, 63 percent of committees overseeing economic development, and 65 percent of committees overseeing agriculture. Compare those figures to health care committees, where only 10 percent of chairpeople come from the private sector. Businesspeople make their legislative presence felt most by controlling the levers of how laws are passed.

\textit{Deputy Requests}

The most powerful weapon in an average legislator’s arsenal is perhaps not one’s vote on the floor, but the use of the deputy request (“\textit{deputatskiy zapros}”). In both regional legislatures and the State Duma, deputies have the right to secretly forward appeals to officials that demand inspections, information, audits, and even sanctions for both public and private sector entities. For opposition deputies whose vote on legislation may not count for much under ruling party dominance, deputy requests bestow incredible legal authority regardless of party membership. Such requests are not uncommon in legislatures worldwide, having been studied, for example, in Ukraine and Belgium.\textsuperscript{65}

For businesspeople politicians, deputy requests provide a multitude of opportunities to promote their firms’ interests. By providing official cover to communicate with bureaucrats, a deputy request can “inform officials about certain ‘shady’ activities of rival firms”\textsuperscript{66} and trigger regulatory

\textsuperscript{63} Reuter and Robertson (2015).
\textsuperscript{64} Here again I code a businessperson as a director or deputy director, or on the board of directors (either as chairperson or as a regular member) of a private or state-owned enterprise. For more information on methodology, see Chapter 2 and the Appendix.
\textsuperscript{65} Herron and Boyko (2015); Baumgartner et al. (2009).
\textsuperscript{66} Dmitriev (2009).
inspections. This type of pressure can make life miserable for a competitor, ranging from increased compliance costs to losing one’s business outright to rapacious bureaucrats who smell blood in the water. According to one official in the Russian Ministry of Internal Affairs, “not one large-scale corporate conflict that saw the participation of law enforcement officials went through without the use of a deputy request... if there’s no real reason to intervene in a conflict, then a request that obligates officials to respond to its contents offers such an opportunity.”

In addition, a deputy “can request any information about any topic from any government agency as long as it falls within the competence of that body.” This can provide advantages in winning state contracts as well as numerous advantages in timing investments according to policy changes. In fact, several major scandals in Russian politics since 2000 have in part been initiated by deputy requests. In 2004, State Deputy Vladimir Yudin sent a request to the Prosecutor General’s office to verify the privatization of OAO Apatit. Soon after, the head of Menatep Group Platon Lebedev was arrested, marking the beginning of the famous Yukos affair that brought down Mikhail Khodorkovsky. At the regional level, a complaint filed by a Saint Petersburg regional deputy in 2017 led to fire safety violations being found at the European University of Saint Petersburg (EUSP) and later contributed to the removal of the university’s license to operate.

Deputy requests are big business in Russia. Sitting legislators regularly sell them to outsiders of all kinds, with bidding starting in the tens of thousands of dollars for regular appeals to the hundreds of thousands for phone calls placed personally to state officials or to key agencies, such as the Prosecutor General’s office. Deputies serving on prime committees can earn even more, sometime taking a 5–10 percent cut of the profit when firms stand to benefit directly from a request.

At the federal level, deputy requests number can number in the hundreds per year per agency. Head of the Investigative Committee Alexander Bastrykin is on record several times complaining about the extra workload imposed by State Duma deputies, who abused his agency

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67 Vinogradov (2009).
68 Kokoshkina (2018).
69 Barova (2014).
70 Vinogradov (2009).
71 Barova (2014).
72 Yekaterinaburg Online (2005).
with over 400 requests alone in the first half of 2009. Officials face legal sanctions for not responding within specific time frames outlined by law, sometimes as short as seven days. Law enforcement officials cannot just look the other way, for fear of drawing attention to their neglect of ostensibly legitimate requests from elected officials. Whereas predatory agents can often undermine the ability of firms to collectively defend their interests through associations, deputy requests skirt this issue by flipping the balance of power in favor of the businessperson politician. Bureaucrats become directly subordinate to deputies. As an extra sweetener, Russian law ensures that the vast majority of these requests remain classified from the general public.

Deputies openly attest to the importance of legislative seats opening doors to engage with powerful elites, in and out of government. In an interview, a current businessperson deputy from Tomsk cited the importance of deputy requests in facilitating these interactions; he made valuable connections by mandating in-person meetings. Regional deputies in Saint Petersburg painted a similar picture: “a deputy mandate is an admission ticket into practically any office, since deputies must be received.” Civil servants treat an elected deputy as one of their own, understanding that these lawmakers can invariably appeal to higher-up officials if bureaucratic obstacles are put in their way. Legislators also enjoy expanded social and networking opportunities to expand market foothold and secure new customers. Put succinctly, Roland Nash, chief strategist at a leading investment firm in Moscow, remarked that businessperson candidacy is “the most powerful form of lobbying.”

Financial and Opportunity Costs of Running for Office

The potentially huge benefits of winning a deputy seat do not come without costs. In fact, running for office may also be the costliest of all political strategies available to firms. Becoming a politician requires

73 Dmitriev (2009).
74 Markus (2012).
75 Chazan (2000).
76 Interview with Vasiliy Semkin, businessman and deputy of Tomsk Regional Duma, Tomsk, Russia. June 11, 2014.
78 Chernokoz (2013).
79 Mereu (2003).
a massive amount of time and money. In many developing countries, businesspeople often must finance electoral campaigns entirely on their own, without party support.\textsuperscript{80} Even in developed democracies, candidates must self-finance. A survey of candidates to national parliaments in eighteen countries found that 46 percent of all campaign expenditures were paid for using personal funds.\textsuperscript{81} Connected firms often have to foot the bill.

Running for office in Russia is expensive. One estimate put the cost of winning a seat in a single-member district in the Omsk Regional Duma at $80,000–150,000 in 2002, before much of the real costs of campaigning (paying for advisors and buying television advertising time) began to skyrocket.\textsuperscript{82} Securing a place on a party list can be even pricier. Political parties can charge at least $8–10 million for a spot on a federal Duma list and 5–7 million rubles ($160,000–$200,000) for a spot on a regional legislature list.\textsuperscript{83} Mironov and Zhuravskaya (2016) examine shadow transfers around gubernatorial elections and find that firms transferred on average a total of $2.5 million to gubernatorial campaigns. The median firm in the data analyzed in the Chapter 2 earned roughly $250,000 in revenue per year during the same period; one electoral campaign would eat into much of that sum, to say nothing about profits.

Elections also carry considerable uncertainty, with spending more money providing no guarantee of victory in competitive races.\textsuperscript{84} Politics can be contentious and vicious. Losing at the polls can hurt firms’ reputations, especially if associated candidates took divisive or controversial stances in order to get elected. Finally, running for office is a very visible strategy that can attract unwanted negative attention, particularly if voters suspect that firms are attempting to capture the state for their own ends.\textsuperscript{85}

The expenses do not end once the election is over. Once in office, a businessperson deputy must allocate time to political responsibilities,
rather than focusing solely on managing firm operations. During re-election campaigns, voters will evaluate politicians not according to firm performance (like shareholders would), but on their ability to deliver public goods and direct political attention to their constituencies. One deputy in Tomsk admitted that “being a deputy and a businessman at the same time is not easy”; the number of constituent requests for help, especially financial assistance, was a significant burden on his ability to run his firm. Political expert Ilya Zemin remarked that from the point of view of a deputy, “people come to your office hours with requests for help, and you can help them only by reaching into your own pocket. This can quickly become irritating.”

Firms may also need to make contributions mandated by the government in exchange for the elbow room to influence lawmaking. Winning a legislative seat puts a businessperson on the regional political radar, potentially opening him or her up to pressure from influential political elites. Businessperson politicians may enjoy added protection against some legal inquiries, but a seat in the legislature can actually make a firm more vulnerable to pressure from above to sponsor charity events, fund health care and education facilities, and provide discounted prices on goods and services for needy populations. And once connected firms start tapping into rent streams made possible by legislative access, state officials acquire powerful leverage through kompromat, or resources that can be used to blackmail. They can then bind the hands, and autonomy, of businessperson politicians, drawing them closer into the orbit of the regime and limiting their ability to strike independent business decisions. 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.

Direct strategies closely bind politicians to firms. Firms receive unfiltered access to policymaking and face markedly fewer obstacles to influencing government officials. These advantages carry their own set of significant costs, which affect the return on political investment. In Russia, if a firm director spends five million rubles on an electoral campaign, then he or she will want ten million rubles in return by the end of

86 Geys and Mause (2013).
87 Interview with Vasily Semkin, businessman and deputy of Tomsk Regional Duma, Tomsk, Russia. June 11, 2014.
In the next section, I examine how firms manage the trade-off between the benefits of unhindered access to policymaking and the significant costs required to win and hold elected office.

1.3 HOW FIRMS CHOOSE BETWEEN INDIRECT AND DIRECT STRATEGIES

Firms in most countries, and Russia in particular, have their choice of strategy to pursue their political goals. As profit-maximizers, they gravitate towards those strategies that provide the best return on their investment. Corporate political activity is plagued by uncertainty given the complexities and ambiguities inherent to the policymaking process. As we will discuss in more detail below, many corporate political strategies run into insurmountable obstacles: lobbied politicians will fail to follow through on promises, politically connected board members hold firms hostage and impose extra burdens, and businesspeople lose elections. Firms look to minimize that uncertainty by adopting the most efficacious set of strategies. None of the strategies outlined above are mutually exclusive. 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, sometimes incorporating multiple approaches in case the preferred course of action fails to meet its objectives. Adopting multiple tactics can cement comprehensive access to the political arena as well as cover a wider variety of policymakers.

However, each approach incurs a potentially expensive set of fixed and variable costs. The median firm will struggle to find the resources to simultaneously fund candidates, employ lobbyists, purchase deputy requests, and fund its own candidates to office. Resource constraints shape what firms can and cannot do in the political arena. Situating these trade-offs under scarcity improves our understanding of the comparative advantages (and drawbacks) of each type of corporate political

89 Interview with Vasily Semkin, businessman and deputy of Tomsk Regional Duma, Tomsk, Russia. June 11, 2014; Interview with Vitalii Koven, leader of Perm Golos organization, Perm, Russia. October 7, 2013.
90 Porter (1980).
91 Heinz (1993).
strategy. To be more specific, the remainder of this chapter investigates the circumstances under which businesspeople decide that running for a spot in government eclipses other more conventional routes that could provide political influence, such as lobbying or making campaign contributions.

Part of this choice revolves around the specific political objectives a firm holds. For example, strategies vary in the level of access offered to policymakers. Campaign contributions are usually concentrated during the run-up to elections, with firms making donations in expectation they will receive desirable policies over an entire term in office. The two direct strategies, developing political connections and running for office, similarly offer firms a more permanent foothold in politics, allowing them to periodically exert influence over the long-run. In contrast, lobbying happens on a more issue-specific basis. Firms decide when to engage politically and when to step back, without having made any lasting commitment to a single politician. Smaller firms may simply not be able to attract politicians to join their management or afford to run a candidate for office themselves. Below I explore how firm-specific characteristics shape which avenue they take.

But there also is room for more general theorizing about the trade-offs between indirect and direct strategies. The key difference between the two is the use of the politician as an intermediary. Under the indirect approach, firms act as principals who engage politicians to work as agents on their behalf. Politicians accept contributions and promise to work towards a mutually agreed upon goal.

This relationship can be altogether precarious. Lobbying and making campaign contributions generate concerns that politicians fail to carry out their side of the deal. A firm may fear that a politician will simply take their donations and give back no political benefits in return. Interactions between firms and politicians suffer from this classic commitment problem plaguing similar principal-agent situations. Morton and Cameron (1992, p. 89) argue that promises made by politicians are not binding: “the winning candidate may renege on her agreement to supply services following the election.” Firms run a real risk of losing their investment completely. I argue that one of the key factors driving firms to adopt

94 Krasno, Green, and Cowden (1994).
95 Miller (2005); Issacharoff and Ortiz (1999); Stephenson and Jackson (2010).
more direct strategies, and thus put forward directors for political office, is this “political market failure.”

1.3.1 Why do Politicians Shirk?

Why might politicians not follow through on their promises made to firms? The main reason involves intentional shirking. Politicians may choose not to represent firms, even after accepting contributions. Much of this is due to simple greed and criminal behavior. The litany of examples from the popular Russian press almost make one feel a dose of pity for businesspeople, who so often get taken advantage of during their efforts to bribe officials. A local restorer in Volgograd paid both a municipal deputy and FSB official for protection against raiding and for help winning a state tender; the two men stole his money and gave nothing in return. The local entrepreneur association commented that this pattern of extortion and raiding by state officials was very common. In Tambov, a legislator took five million euros from a tobacco company, promising to help them out with resolving a large tax bill. The firm went to the police after it became clear the politicians never planned to execute his part of the deal. A Kirov deputy tricked local businesspeople and citizens out of 500 million rubles ($17 million), and then secured international passports for his wife, son, father, and mother before disappearing completely. Regular citizens also get burned by politicians: a deputy in Sverlodskaya Oblast promised a local felon he could get him a reduced sentence and spare him from prison time (his sentence ironically was also for engaging in extortion). After receiving 1.5 million rubles ($50,000), he simply stashed the cash away without taking any action.

Oftentimes the deputies harass businesspeople to pay up for their services, particularly deputy requests. If businesspeople don’t comply, these same requests can be used against them to create even bigger problems. A Krasnoyarsk deputy compelled a local businessman to pay the salaries

96 See Hall and Deardorff (2006); McCarty and Rothenberg (1996); Snyder Jr (1992). Not all work treats the exchange as prone to failure. Some work argues that 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.

97 Tarakanova (2008).
98 Sergeyev (2017).
100 Pasmi.Ru (2017).
of three of his staff members on a charity project designed to improve his image in the run-up to regional legislative elections.\textsuperscript{101} When the businessman refused to pay what would amount to 430 thousand rubles (\$14,000), the politicians threatened to use deputy requests to trigger constant regulatory inspections and destroy the company. One of Russia’s most famous female businesswomen, the “Queen of Chocolate” Irina Eldarkhanova, commented that “she was extorted out of several tens of thousands of dollars to cancel a court’s decision” using deputy requests.\textsuperscript{102} In Saint Petersburg, Regional Deputy Vyacheslav Notyag was arrested in 2016 for blackmailing a local firm director for cash in exchange for \textit{not} using deputy requests to create problems for a local construction project.\textsuperscript{103}

Greed can also drive politicians to exaggerate their influence within legislative bodies. Granted, some politicians lobbied to represent a firm’s interests may sincerely run into obstacles securing the promised policy. Politicians may be new to the legislative process and not completely understand the difficulty of implementing what they have offered a firm.\textsuperscript{104} These politicians faithfully, but ineffectively, perform their end of the deal.

However, a closer look at interactions between businesses and politicians in Russia uncovers an abundance of overselling, and ultimately many disappointed firms. In Smolensk, a deputy extorted a construction firm director out of 8 million rubles (\$250,000); he didn’t have the authority to grant the licenses promised in the deal. Similar machinations occurred in Tula, where a local deputy took $80,000 from a commercial firm in exchange for organizing the privatization of a state-owned enterprise.\textsuperscript{105} Having been tipped off about the case, the local prosecutor commented that the deputy had no means to influence the process of privatization deals. Ruling party deputies, who presumably have the right connections, even get caught up in exaggerations. A United Russia deputy of the Bryansk regional legislature got four years in prison for taking 12 million rubles (\$400,000) from five different citizens over the course of 2013–15: he took 7 million rubles from two entrepreneurs to organize a joint business project on newly acquired land, 2.8 million

\textsuperscript{101} Takiye Delo (2018).
\textsuperscript{102} Savkin (2009).
\textsuperscript{103} Kokoshkina (2018).
\textsuperscript{104} Lobbyists have been known to engage the wrong policymaker in pursuit of their clients’ goals (Hillman, Keim, and Schuler, 2004).
\textsuperscript{105} RIA Novosti (2005).
rubles from another entrepreneur for a discount in purchasing tractors and trucks, 1 million rubles from another resident to get him a job in the regional legislature, and 1.3 million rubles from another entrepreneur to whom he promised help getting a municipal contract. In the end, he was not in any position to fulfill any of his promises. Extortion can sometimes even bring opposing political parties to work together. Two deputies representing different parties in the Vladivostok city council took 5 million rubles ($170,000) to help a businessperson get a contract signed by the city mayor. Neither had the authority to actually follow through.

The political goals firms pursue also suffer from a problem of ambiguity: defining successful policy interventions is not nearly as simple as the pursuit of a product market strategy. Firms may be led to believe they are purchasing some concrete outcome, but wind up mired in the complexities and unpredictabilities of the policymaking world. Moreover, politicians (working as de facto lobbyists) have selfish incentives to obfuscate how much they have accomplished. The more contributions they can attract, the better their chances of retaining their position in the short term.

Some shirking can also occur for political reasons. Privately a legislator might assure a firm that he or she is committed to pursuing some policy, but when push comes to shove, the firm’s request generates conflicts with that legislator’s larger political objectives. Politicians have their own preferences that can diverge from their clients and donors. They may say and do things to get elected, knowing full well that they will not follow through later. Demands of special interests regularly conflict with those of politicians’ constituents and party leader, both of whom hold sway over how long such officials can remain in office. Firms already struggle to ensure their paid lobbyists faithfully represent their interests. The risk of politicians, who face so many additional pressures, doing the same is even greater. This leads to an asymmetry in preferences between the principal and agent, increasing the rate of shirking.

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107 Godwin, Godwin, and Ainsworth (2007); Lowery and Marchetti (2012).
109 Kersh (2000).
111 Ainsworth and Sened (1993); Lowery and Marchetti (2012).
In Russia, this often involves parties betraying the donors that got them into office once elections are won. Party leaders simply decide to go in a different political direction, and internal conflicts wind up leaving some sponsors in the dust. Take the case of the Communist Party in Ulyanovsk. Local businessman Mikhail Dolgov was a primary financier of the party’s electoral success in the 2013 elections; he paid for the public relations efforts and electoral campaign in exchange for a seat in parliament.\[112\] Dolgov ultimately lost the game of musical chairs afterwards, being left without a mandate by the party he sponsored. In Perm, United Russia backed away from its promises to a prominent sponsor of the party’s campaign, choosing a village schoolteacher instead to represent the region in Moscow.\[113\] The businessperson’s shady practices were viewed as a liability for the party.

In Primorsky Krai, United Russia nearly fractured over the removal of several prominent financiers from so-called “proxodyashiye mesta,” or spots on the closed party list that basically guaranteed candidates a seat in the legislature. The donors’ anger spilled out into the public view, as they felt betrayed by party leaders.\[114\] As a member of the State Duma, Vyecheslav Volodin made himself few friends back in his native region of Saratov as well in 2007 by refusing to honor the results of primaries that gave victory to many businessperson sponsors of United Russia.\[115\] He preferred teachers, doctors, and high-level party officials, overruling the donors who had thrown their hefty financial support behind the party.

In other instances, a bargain may break down because politicians accept a higher outside offer from a firm’s rival. Politicians are beholden to multiple constituents and receive competing offers from many interest groups.\[116\] If contributions are made under secret all-pay auctions, a firm cannot be sure that its campaign contributions or lobbying expenditures will not be matched or exceeded by a rival group.\[117\] A local businessperson from Saint Petersburg remarked that “a deputy, even one you finance, will never selflessly fight for your interests . . . A deputy can get higher bribes from others or be intimidated at the end of the day.”\[118\]

\[112\] Udal’tsov (2015).
\[113\] Interview with Aleksei Sokolov, journalist, Tomsk, Russia. June 11, 2014.
\[114\] Chernyshev (2007).
\[115\] Bocharova (2007).
\[117\] Naoi and Krauss (2009); Hall and Deardorff (2006).
\[118\] As quoted on, Sakaeva (2016), p. 3.
Though larger contributions are theoretically presumed to increase the probability that a politician will implement the “bought” policy, firms may be unaware of what their competitors are offering. By its very nature, lobbying happens behind closed doors, and few countries have strict legal regulations to publicize expenditures. Firms have little knowledge about a politician’s true intended action and could be sinking money into a black hole.

My interviews in three Russian regions suggest that the trustworthiness of politicians is a pressing concern. Businesspeople often raised the issue of politicians betraying their promises to special interests, and explicitly linked their decision to run for office to deficiencies in representation. A local businessperson in Perm commented how lobbying was simply a waste of money, since lobbyists are not taken seriously, or respected, by politicians. The deputy chairperson of that same parliament noted how paying money to one deputy would not get anything done; deputies rarely responded to their donors. In Rostov region, firm directors took a greater interest in running for office in the mid-2000s as a result of deputies’ “short memory”: deputies were quickly and conveniently forgetting who had supported them and, unlike an employee, could not be simply fired from their position. An opposition party leader in Perm commented that financial groups didn’t trust outsiders or lobbyists to get anything done politically; they had to send their own representatives into power for the wheels to move. The situation was similar in Tomsk where a director of a construction firm and elected deputy of the Tomsk Regional Duma remarked that businesses didn’t trust politicians; promises can be suddenly broken and then the entire political investment would be lost. Elected politicians are viewed as easily malleable, ready to renege on a deal if a better one comes along.

Broader analysis of business–government relations in Russia and beyond leads to similar conclusions. In a survey of 654 Russian firms across twelve regions in 2017, I posed the following hypothetical

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120 Interview with Anton Tomachev, local businessperson, Perm, October 8, 2013.
121 Interview with Igor Papkov, Deputy Chairperson, Perm Regional Duma. Perm. October 8, 2013.
122 Smirnov (2010).
123 Interview with Olga Kolokolova, Yabloko Party Leader, Perm, October 6, 2013.
124 Interview with Valeriy Otsipov, deputy of Tomsk Regional Duma, Tomsk, Russia. June 9, 2014.
question to firm directors: “During election campaigns, politicians often make promises to specific firms and individuals. If a politician promises to help a firm (e.g. with regulations or licenses), how likely do you think that they will fulfill their promise?” Directors were then given a five-point scale to choose from, with 1 denoting “very unlikely” and 5 denoting “very likely.” The mean response was 2.7, with only one-quarter of firms (25 percent) answering that politicians would be “likely” or “very likely” to fulfill their promises. Voters in Western Europe give their politicians similarly low marks for keeping their campaign promises. Work on Kyrgyzstan further similar evidence that firms cannot always buy preferential treatment; they need to secure direct positions within government to influence how policies are made.

These examples of greed-fueled shirking are only what we know from deputies getting busted by law enforcement or personal interviews with people intimately aware of these breakdowns of corrupt dealings. It is not hard to suspect that the vast majority of politicians who renege on their end of the deal never get caught: firms have few incentives to get the law involved if they will also become implicated in facilitating a bribery scheme. Hence many politicians in Russia believe they can get away with these machinations. A legislative mandate is big business and a ticket to wealth: deputy requests can be sold at incredible prices, firms can be extorted for cash (often with little required in return), access to insider political information can open up new business opportunities to invest in, etc. Deputy status also places an individual above most companies. In all, politician shirking is a very real problem for firms looking to get involved politically.

1.3.2 The Drawbacks of Conventional Solutions

Commitment problems such as shirking are far from intractable. A variety of devices exist to potentially help principals restrain opportunism among agents. First, firms might turn to formal institutions to protect themselves against shirking. One solution would be to design contracts to lock politicians into their promises. After

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125 Additional methodology about how the survey was conducted can be found in the next chapter.
126 Naurin (2011).
127 Engvall (2014).
all, firms regularly sign contracts with their other suppliers of key inputs, such as raw materials or consulting services. Some interest groups have enjoyed success convincing politicians to commit to such pledges. Naoi and Krauss (2009) describes politicians in Japan making public promises and signing policy agreements to get support from agricultural lobbies. Thousands of elected officials in the United States have famously signed Grover Norquist’s pledge not to raise taxes, receiving endorsements and political support in return.\footnote{129 Tomz and Van Houweling (2012).}

But contracting over political goods raises a series of thorny issues. First, politics is inherently messy and does not lend itself well to ex ante determinations about possible outcomes. Lowery and Marchetti (2012) note that given the ambiguities bound up in the policymaking process, contracts to regulate interactions between interest groups and lobbyists will necessarily be incomplete and hard to structure. These open-ended agreements are subject to constant renegotiation and reinterpretation. Given the asymmetric informational advantages politicians have within the policymaking process,\footnote{130 Kersh (2000).} firms will struggle to untangle what has and what hasn’t been accomplished. Monitoring contract fulfillments can send the total cost of using an indirect strategy skyrocketing.

Next, in the vast majority of countries, the practice of buying votes and laws is illegal. That said, evidence from several countries suggests that politicians do write out price lists that document the cost of each legislative policy or service.\footnote{131 Slinko, Yakovlev, and Zhuravskaya (2005); Ledeneva (2011).} In Nigeria, powerful donors sponsor candidates, but demand contracts in writing about their future loyalty.\footnote{132 Albin-Lackey (2007).} But contracts that facilitate such an exchange leave a long paper trail that if uncovered, can destroy politicians’ careers or even put them in jail. President Fujimori’s government in Peru was toppled shortly after videotapes emerged of politicians accepting cash in return for policy and other favors.\footnote{133 McMillan and Zoido (2004).} A former Minister of Justice in Croatia was engulfed in a major scandal for allegedly reneging on a written contract to reward a large campaign donor with a seat in parliament. When the contract leaked, a corruption scandal and criminal investigation ensued.\footnote{134 Smilov and Toplak (2008).}
these risks, when quid pro quo exchanges are arranged, they are usually signed off on informally. This lends scope for politicians to ex post reinterpret or renegotiate the original agreement to the detriment of the firm. Introducing performance or outcome-based compensation beforehand upends the idea of campaign contributions,\footnote{Susman and Martin (2006).} which need to be exchanged prior to elections for them to benefit a candidate.

Even if actors carefully write out agreements, contracting over policy outcomes quickly runs into the problem of enforcement. When problems arise with material suppliers, firms can turn to arbitration courts to help settle claims. But in most developed countries, contract and tort systems, which generally serve as the backbone of legal liability, do not regulate political representation.\footnote{Issacharoff and Ortiz (1999).} And in Russia, politicians generally have the law enforcement system on their side and can use administrative resources to place pressure on businesses who complain about their treatment.\footnote{Interview with Sergei Schpagin, professor, Tomsk State University, Tomsk, Russia. June 9, 2014.} Punishing shirking must be done outside of the legal system.

The most obvious way to punish a politician is to orchestrate their exit from politics during the next election campaign. Firms can switch their endorsements or fund alternate candidates. A recent expose of lobbying in Russia suggests that some interest groups in Russia consider this approach. Political risk consultants offer help identifying troublesome policymakers in parliament. In the words of one such expert, “the simplest option is to ensure that these people fail to get re-elected. You make deals, you set obstacles, and you field your own troublemakers.”\footnote{Bekbulatova (2018).} But hiring such services can prove more expensive than the original lobbying expenditures, and firms still have little guarantee that the new faces in parliament will stick to their promises.\footnote{Below I argue that the only way around this problem is to make the firm director herself become the alternate candidate.} Legislators can encroach on a firm’s domain without warning and inflict enough damage that funding another candidate years down the line will do little to unwind.

Under conditions of inconsistent third-party enforcement, verbal and supralegal contracts require reputational mechanisms to become self-enforcing. If the exchange takes place as a one-shot game, neither side
develops the necessary trust or capabilities to punish the other for reneging.\textsuperscript{140} Building the degree of trust necessary can take time and requires a long-term investment on the part of interest groups.\textsuperscript{141}

But many countries suffer from high levels of instability. Both the politicians that pursue office and the economic winners and losers can change within a single electoral cycle. Firms may be more concerned with securing present-day outcomes than making future threats. If a politician believes that a supportive firm will simply not exist by the next election, there are few if any reasons to stick to the bargain. Similarly, politicians need to win immediate reelection, which undermines the notion of a “campaign contribution contract.”\textsuperscript{142} Interviews suggest that politicians generally do not struggle to raise money from businesspeople, especially given their elevated political influence. They regularly pressure business for campaign contributions, whether in terms of money or votes.\textsuperscript{143} For example, firms in Saint Petersburg regularly complain of politicians harassing them to donate money for their campaign in order to enjoy even basic political benefits.\textsuperscript{144} According to Sergei Schpagin, “politicians have many responsibilities to many constituencies. They are not responsible to any one businessman.”\textsuperscript{145} One has to be a huge businessperson in order to control a politician effectively.

Working through parties to punish politicians might be a better option. Political parties oversee candidate selection, coordinate money to campaigns, and can make independent expenditures to their members running for office. If a politician regularly spurns relationships with influential firms, parties have the leverage to hold them accountable. Shirking politicians do damage to the party brand and jeopardize its future financing. Strong parties can reassure contributors that they can freely donate money in exchange for political promises that later won’t be reneged upon. Developing strong and public brands solidifies this transaction, for parties can punish deviating politicians who jeopardize the image of the party as a credible political partner. Likewise, candidates

\textsuperscript{140} Großer, Reuben, and Tymula (2013).
\textsuperscript{141} Baron (1989); Snyder Jr (1992).
\textsuperscript{142} McCarty and Rothenberg (1996).
\textsuperscript{143} Frye, Reuter, and Szakonyi (2014).
\textsuperscript{144} Ragozina (2007).
\textsuperscript{145} Interview with Sergei Schpagin, professor, Tomsk State University, Tomsk, Russia. June 9, 2014.
who benefit from party support will be wary of risking it by fraying ties with influential businesspeople who are critical to funding electoral campaigns. As such, political parties may help alleviate the commitment problem between politicians and firms.\textsuperscript{146}

Strong parties are not a given in all political contexts. Party brands take years to develop, and party system institutionalization varies markedly across countries,\textsuperscript{147} whether due to historical legacies, or the strength of partisan ties.\textsuperscript{148} 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. In the next section, I exploit variation in party strength to show how the severity of the commitment problem drives businesspeople to seek political office.

In extreme cases, punishment of shirking can take the form of physical harm. In the Russia of the 1990s, when rule of law was considerably weakened, violence emerged as an effective means of resolving conflicts between firms.\textsuperscript{149} Private non-legal enforcement helped fill in where reputation-based business culture and legal institutions were slow to develop. Although violence is both costly and illegal, often just the threat of using it can be enough to enforce commercial agreements.\textsuperscript{150}

One observer in Ryazan Region noted that during that period, violence helped enforce contracts between businesses and politicians.\textsuperscript{151} But as law enforcement improved over the subsequent decade, this option for holding politicians accountable become no longer viable. Businesses could not afford the risk of targeting individual politicians with violence.

In short, politicians may have little to fear from acting against their donors’ interests.\textsuperscript{152} 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 desired policy outcomes. The importance of informality comes through

\textsuperscript{146} Stephenson (2003).
\textsuperscript{147} Mainwaring and Torcal (2006); Kuenzi and Lambright (2001).
\textsuperscript{148} Hicken and Martínez Kuhonta (2011); Dalton and Weldon (2007).
\textsuperscript{149} Gans-Morse (2012); Pistor (1996).
\textsuperscript{150} Fafchamps (1996).
\textsuperscript{151} Interview with Aleksander Semenov, professor of the Ryazan’ branch of the Moscow State Art and Cultural University, November 18, 2013.
\textsuperscript{152} Issacharoff and Ortiz (1999).
in conversations with businesspeople in Russia. Firms acknowledged they were basically on their own in terms of interacting with politicians. Politicians felt unconstrained from betraying their promises, and available means to punish them fell flat.

1.4 BUSINESSPERSON CANDIDACY SOLVES THE COMMITMENT PROBLEM

The limited ability of institutional- and reputation-based mechanisms to constrain politicians drives businesspeople to run for office themselves. When businesspeople become politicians, they can act completely in the interests of their firms and not be concerned about the problems of delegating to and monitoring intermediaries. Once elected office is won, firms must still negotiate with other policymakers to get their interests heard, but their concerns about the potential defection of lobbied policymakers are lessened. Holding office frees them from their reliance on the whims of opportunistic politicians.

This approach to mitigating the commitment problem draws on the economic theory of vertical integration. Firms have choices about whether to make an input or buy it from an autonomous seller. The latter imposes transactions costs, one of which involves making sure the contractor delivers the goods as requested. Achieving political access incurs the same trade-off: firms have to decide whether to contract with a lobbyist or politician to advocate on their behalf, or use internal resources to produce the same policy.

I argue that having a businessperson hold elected office allows a firm to essentially benefit from a politician working as an in-house lobbyist. The firm builds out its political capacity from within its ranks, rather than transacting with a potentially unreliable supplier of policy. This alleviates some of the organizational challenges of delegating and monitoring within the firm, since the director and the politician become one. Firms no longer need to expend extra effort to develop monitoring capabilities, or write enforceable contracts, or develop elaborate reward and punishment schemes, all to constrain their businessperson politician. Whether

\[153\] Interview with Elena Zyryanova, deputy Perm Regional Duma, Perm, Russia, October 8, 2013.

\[154\] Tev (2016).

\[155\] Coase (1937); Williamson (1981).

\[156\] Stephenson and Jackson (2010); Lowery and Marchetti (2012).
the politician stays on the firm’s payroll or retains an ownership stake, his or her incentive to represent the firm’s best interest in politics remains intact. This hierarchical solution streamlines the firm’s political strategy, placing the central emphasis on making sure the businessperson politician is adequately compensated not to betray the firm’s interests while in office. Choosing a higher-level executive who is financially invested in the firm gives the firm a powerful, motivated political agent.

If businessperson candidacy is being used to overcome contracting problems, we should see more businesspeople running for office when fears of politician shirking are the greatest. Because running for office is so costly, substantial uncertainty must exist about the ability of elected politicians to carry out promises in order for businesspeople to elect the direct approach. The more unreliable intermediaries are perceived to be, the more likely firms should look towards an in-house solution.

1.4.1 Economic Competition and Political Rivalry

First, politicians are more likely to shirk when they have multiple suitors for a single policy.\textsuperscript{157} For firms investing in political access, that competition is likely to come from their rivals in the economic arena. Many important political benefits, such as state contracts, construction permits, subsidies, and loan guarantees, accrue to individual firms. Exporting firms require permission to move their specific goods abroad, while manufacturers need licenses to carry out production. Firms facing a threat of expropriation from their rivals or law enforcement bodies look to political connections to protect their own assets, rather than cooperate with others working in their industry.\textsuperscript{158}

Most concerning is the possibility that the director of a rival firm wins a seat. Firms fear this outcome. We saw above that businesspeople gravitate towards committee chairpersonships that match their policy area of interest. Seeing a rival rise to such a powerful position can dramatically impair a firm’s ability to see its interests adequately represented in the legislature. Chairpeople control the types of bills brought under discussion and are privy to information about the content and flow of the legislative process that is invaluable to investment planning.

\textsuperscript{157} Tomz and Van Houweling (2012).

\textsuperscript{158} This is not to argue that firms do not work sometimes towards sector-wide benefits. In the final section of this chapter, I discuss the role trade associations play in advocating for these types of policies, and their effects on businessperson candidacy.
Rival businessperson politicians can make much more attractive offers to their colleagues, using their own personal relationships in the chamber or exchanging votes on other legislation. Logrolling legislation induces politician shirking on their promises to interest groups. 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.\(^{159}\) Smaller size groups can facilitate logrolling.\(^{160}\) The risk of remaining on the outside of lawmaking debates drives firms to expend considerable resources to try their hand at winning a legislative seat themselves. Even though their probability of winning office decreases when large rivals compete for the same seats, the potential costs of not having a direct line to lawmaking processes (while one’s rivals do) become unbearable.

Indirect strategies do not work as well when rival firm directors take office. Russian firms are quite circumspect about the ability of lobbyists to get behind closed doors and prevent politicians from defecting. In the words of political scientist Sergei Zyryanov, “business groups are not ready to rely on the services of professional lobbyists, who are hard to find anyway. Because of a lack of trust or the complete absence of capable lobbyists with the equivalent political weight of a deputy, firms prefer to lobby their interests themselves” and thus run for elected office.\(^{161}\) Firms need at least a seat at the committee table to even begin getting their interests heard.

Seeing a rival win office also opens up vulnerabilities to the dreaded deputy request being deployed against them as a weapon. Preventing this can be difficult; Deputies can charge outsiders exorbitantly high prices precisely because these requests are so effective at stirring up trouble for competitor firms. Purchasing deputy requests from other elected politicians becomes prohibitively expensive. Access to the right legislator for the job comes at a steep price, or can even become impossible if a deputy is in another firm’s pocket. Bureaucratic agencies pay attention to deputy committee assignments for signals about how seriously they should take each request. It makes much more financial sense to run and win office on one’s own and issue seemingly an unlimited number of requests to paralyze one’s rivals, then continue to buy each piecemeal on the black market.

\(^{159}\) Spector (2008).
\(^{160}\) Wittman (1989).
\(^{161}\) Proshu Slova! (2004).
Firms therefore follow one another into politics, just as they copy designs, production approaches, and entry into new markets. Directors study their competitors’ behavior, grouping them into reference groups and studying their profitability. Research suggests that firms then adopt the strategies that have offered their competitors the greatest success. High levels of uncertainty, a trait common to the public policy arena, elicit particularly high levels of mimicry among firms. Large organizations are also especially prone to experiment with mimicry, as they have the flexibility to adopt broader, more varied strategies to achieve their economic aims. Using survey data on US lobbying, Drutman (2015a) finds that one of leading reasons that firms create Washington offices and get engaged politically is because other companies in their industry are also politically active.

The end result is that firms most concerned about their rivals putting forth candidates should run their own candidates as a counter-strategy. We should expect that the economic structure of an industry affects the likelihood of businessperson candidacy being adopted. Firms with several large rivals that can bear the costs of running for office should be more likely to run for office. Directors fear political benefits accruing to these other large players.

**Hypothesis 1.** Economic competition, particularly from large rivals, drives firm directors to run for elected office.

Businessperson candidacy emerges as a powerful tactic to dominate rivalries, allowing firms the possibility of one-upping their competitors. Schuler, Rehbein, and Cramer (2002) find that intra-industry competition among large firms can resemble an arms race, with firms adopting more intense corporate political activity to prevent their rivals from surging ahead and pursuing particularistic benefits. Turovskii (2004) alternately applies the analogy of a chain reaction to business maneuvering in multiple regions in Russia, including Primorskiye Krai, Sverlodksaya Oblast, and Dagestan. One of the leading producers of potash fertilizers in Perm Oblast, Uralkaliy, thrust itself into regional politics, sending top managers to run for political office at multiple levels. In response to

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165 Greve (1998); Haveman (1993).
these new businesspeople entering politics, the value of a deputy seat skyrocketed, and rival firms, most notably Silvinit, adopted the same strategy. Firms realized they would be left completely behind if they didn’t match their competitors. This argument thus pushes back against the Olsonian approach to collective action,\textsuperscript{166} which holds that collective action should be more likely to occur in concentrated sectors with a small number of large firms. Businessperson candidacy becomes a type of political equilibrium, where the costs of defecting are higher than the benefits.

1.4.2 The Constraining Effects of Strong Political Parties

Second, the structure of political institutions shapes the probability of politician shirking, and thus how firms construct their corporate political strategies.\textsuperscript{167} Firms struggle by themselves to punish politicians who defect from agreements, but political parties can step in and play a stronger role. Parties control perks and privileges during the term as well as can facilitate lucrative post-public employment opportunities after politicians exit office. Worries over maintaining outside financial support and staying in power motivate parties to protect their public image as trustworthy stewards of both constituent and special interests. Where politicians are worried about being cut off by parties, their commitment to satisfying donors increases. Simply put, parties both have the means to combat politician shirking through disciplinary measures, and the incentives to maintain reputation.\textsuperscript{168}

Institutionalized party systems emerge when elites maintain party allegiances over time and individuals develop durable party identifications.\textsuperscript{169} But clearly many party systems are very volatile. New entrants, or so-called “flash parties,” can emerge quickly through the efforts of ambitious elites, who see them as useful but temporary vehicles to gain power.\textsuperscript{170} Concerns over maintaining consistent brands and reputations also vary. Parties can easily become just a facade for the personal vote centered on the politician.

\textsuperscript{166} Olson (1965); Ozer and Lee (2009).
\textsuperscript{167} Henisz (2000).
\textsuperscript{168} DeBacker (2012); Wittman (1989).
\textsuperscript{169} Rose and Mishler (2010).
\textsuperscript{170} Kopevcek (2016); Barndt (2014); Arter (2016).
Parties can also fade from the scene if resources dry up or their ideology loses resonance with voters.\textsuperscript{171} When parties disband or elites constantly switch parties, voters and interest groups cannot hold politicians accountable. In places such as Russia, intense volatility led to what Rose (2000) calls a “floating system of parties” throughout the 1990s and early 2000s. The array of parties fluctuated constantly, and few made long-term investments in building relationships with constituents. Although the party system in Russia had stabilized by the late 2000s, firm directors already had extensive experience with politicians floating from party to party, donor to donor, with little disciplinary action being taken.

Weakly institutionalized parties not only fail to constrain politicians, they also open up opportunities for businesspeople to independently access ballots. Strong parties are often characterized by significant organizational resources, professional leadership, programmatic capacity, and attachments from voters.\textsuperscript{172} Where party brands resonate with voters, unattached candidates face an uphill battle making their case with voters. Party leaders often decide whether to allow a candidate to run on their slate. As shown in Chapter 4, businesspeople would love to pry loose from the party’s grip. Firm-related assets, such as recognition in the community or financial resources, allow directors to run their own campaigns and rely less on party organizations.\textsuperscript{173}

Therefore, we should expect a correlation between the strength of political parties and the incidence of businessperson candidacy. Political party strength can vary even within a single country, affecting economic and environmental outcomes, as well as how firms interact with the state.\textsuperscript{174} If businesspeople believe that parties cannot hold their affiliated candidates accountable, then the need to directly occupy elected office increases.

**Hypothesis 2.** *Businessperson candidacy will be more common where political parties are weaker and less institutionalized.*

Contributing to a party also greatly simplifies the transactional process by allowing a firm to more transparently register its contributions and

\textsuperscript{171} Lupu (2016).
\textsuperscript{172} Gibson et al. (1983).
\textsuperscript{173} Hale (2005); Smyth (2005).
\textsuperscript{174} Gibson et al. (1985); Wilson (2008); Bizzarro et al. (2018); Enikolopov and Zhu-ravskaya (2007); Fredriksson and Wollscheid (2014); Gehlbach and Keefer (2011).
thus political support. Even though parties often represent encompassing interests and may not see the value in representing specific firm interests on a regularly basis, this arrangement is often preferable to contracting with individual deputies. Firms in Russia remarked that unlike the 1990s where bribes could be directed at single officials and deputies to get things done, the development of more complicated, overlapping corruption systems have forced firms to make payments to multiple politicians to achieve the same effect.\textsuperscript{175} This lack of coordination leads to excess rent extraction.\textsuperscript{176} Parties help centralize these payments to the benefit of firm interests.

In Russia, deficiencies in party development are also associated with the rise of personalist leadership. Without formal institutions such as legislatures and political parties to constrain them, personalist leaders are less accountable and may be more likely to renege on their promises.\textsuperscript{177} They engage in elite reshuffles more often, and rely on other resources, such as charisma, patronage networks, and repressive apparatuses, to keep their governments together.\textsuperscript{178} Recent work has shown that these institutions are needed to engender trust that politicians will keep their promises and enforce agreements.\textsuperscript{179} Some personalist regimes do use political parties to govern, but fewer resources are invested and policymaking must run through the leader, rather than party structures. In such personalist regimes, we should expect that firms will be more uncertain about whether the government official they lobby will follow through on their promises.

**Hypothesis 3.** Businessperson candidacy will be more frequent in more personalist regimes.

1.4.3 Campaign Costs and Candidate Entry

Running for office is an expensive endeavor. Firm directors 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 their businesses. Businesspeople candidacy is perhaps the most expensive corporate political strategy.

\textsuperscript{175} Sakaeva (2015).
\textsuperscript{176} Treisman (2000); Shleifer and Vishny (1993); Olken (2007).
\textsuperscript{177} Weeks (2014).
\textsuperscript{178} Kroeger (2018); Ezrow and Frantz (2011).
\textsuperscript{179} Reuter and Szakonyi (2019).
Any analysis of why some firms put forth candidates and others do not must take into account their ability to afford the high costs of campaigning.

In general, campaign costs are a significant barrier to entry for any type of candidate. Citizen-candidate models predict that regulations that increase the costs of entry, such as registration fees or signature requirements, can have a dramatic effect on the number of candidates willing to run for office.\footnote{Braendle (2016).} 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.\footnote{Hall (2015).} As the burden of fundraising increases, even professional politicians become less interested in staying in government. High costs require companies to spend capital on campaigns and not on investment projects or other expansionary activities. If campaign demands become 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, we should see fewer businessperson candidates in places where more resources are required to win seats in a legislature.

**Hypothesis 4.** More businesspeople will run for office in places where campaign costs are low.

Lower campaign costs also increase the probability that many firms from a single sector will run for office. The probability then increases that a firm’s direct competitor will capture legislative institutions, and deflate the value of indirect strategies. When running for office is inexpensive, we should see more convergence among firms around the same corporate political strategy. Firms must follow the trend and put up their director in elections to keep abreast with their rivals. A self-fulfilling prophecy then 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 campaign costs limit the number of firms can afford to run. Indirect strategies become more attractive as firms look to other avenues to build political access. We saw above that running for office can be prohibitively expensive for the median firm in a Russian region, reaching nearly 100 percent of annual revenue. Clearly not all firms can afford this strategy,
and those that do still see their balance sheets hit hard by these extra expenditures on political activity.

### 1.4.4 An Ability to Pay

Because running for office is so costly, firm size will play a key role in predicting which directors become candidates. Only firms with excess capital not allocated to investment 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.\(^{182}\) This advantage in orchestrating voter mobilization can reduce the costs of courting voters in a constituency by creating brokers from workplace supervisors to turn out the voter in favor of the firm’s candidate. Firm size has been found to be an important determinant of numerous types of corporate political strategy for similar reasons.\(^{183}\) Part of this relationship between size and candidacy may also be due to demand-size effects. Larger firms may require more substantial policy interventions as their operations grow larger and acquire political implications. Not only can these companies afford to run, but their continued expansion may require getting direct involvement in lawmaking.

**Hypothesis 5.** The larger a firm is, the more likely its director will run for office.

Upon taking office, a businessperson politician then faces significant opportunity costs of governing. Every minute spent working with constituents or sitting in a committee meeting is one not spent in the C-suite. Although the financial returns to businessperson candidacy may be significant, not all firms can afford to allow their talented upper-level management to spend so much time away from the firm’s everyday activities. How reliant a company is on specific individuals can turn on a number of factors, including the sector in which it operates and its corporate governance structure. To quote prominent Russian businessperson Ilya Borzenov about his reasons for entering the Sverdlodsk regional legislature:

\(^{183}\) Hillman, Keim, and Schuler (2004); Chong and Gradstein (2009).
I went into politics, because suddenly I had the time and the opportunity to consider another part of my life. Maybe this sounds a little far-fetched, but without understanding how this country is run, it’s impossible to develop your business. I would have never left my company. Simply today my role in the company is the strategic development of our business. And my free time I can spend on politics.\textsuperscript{184}

Some CEOs operate more like “managers,” becoming intricately involved with production and employee relations; others exhibit behavior more akin to “leaders,” dealing with other executives both inside and outside of their firm.\textsuperscript{185} CEOs working in sectors where routine production tasks are paramount may have less latitude to hold down a political position and keep their companies afloat. Founder CEOs may be more critical to daily business operations than outsider firm directors who take their positions within a corporate system that was already functioning before their arrival. I explore the effect of different types of corporate governance structures on businessperson candidacy in Chapter 4.

In all, we should see more businessperson candidacy in places when commitment problems with politicians loom largest. But in some cases, the severity of the commitment problem is not the primary factor determining when businesspeople run. For example, some countries explicitly ban politicians from having connections to their previous employers or earning outside income while in office.\textsuperscript{186} Even though businesspeople in these places may not trust politicians to carry out their bidding, their ability to use political office themselves to advance their firm’s interest is limited.

Moreover, in industrialized democracies, the cost of running for office is often prohibitively high for a single firm to foot the bill. For example in the United States, the resources needed to mount a national-level electoral campaign have jumped in the past several decades.\textsuperscript{187} We might expect then that as the cost of running for office increases, businesspeople should be less likely to seek office. 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. In an interview,

\textsuperscript{184} Borisova (2004).
\textsuperscript{185} Bandiera et al. (2017).
\textsuperscript{186} See the Conclusion for a more in-depth exploration of cross-national variation in how countries regulate conflicts of interest.
\textsuperscript{187} Hall (2015).
a Perm businessperson agreed, remarking that as the Russian economy developed, fewer businesspeople would seek political office.\textsuperscript{188} In the conclusion, I draw out further the scope conditions for the demand and supply side arguments about the factors driving the entrance of businesspeople into politics around the world.

1.5 ALTERNATIVE EXPLANATIONS FOR BUSINESSPERSON CANDIDACY

1.5.1 Quality of Democracy

The argument that businesspeople run for office to mitigate a commitment problem may overlook the importance of other political institutions. Work has shown that institutions such as the strength of legislatures and extent of democratization can affect the value of political connections. Institutions change how corporate political strategies are deployed, and when underdeveloped, can result in more corrupt and cronyist behavior on the part of firms.\textsuperscript{189} Just as different institutional structures dictate where firms direct their campaign contributions and lobbying efforts, the strength of the rule of law and quality of democratic representation may also affect how firms approach the decision to run candidates for office.

Gehlbach, Sonin, and Zhuravskaya (2010) apply this line of argumentation specifically to the issue of businessperson candidacy. The authors argue that when democratic institutions enable voters to hold politicians collectively accountable for their time in office, there is less leeway for businesspeople to secure policies that conflict with the preferences of the pivotal voter. Free and fair elections enable voters to remove politicians that break promises to deliver public goods. If businessperson candidates cannot deviate from promises made to voters, the costs of running for office exceed the firm-level returns they can achieve in office. Other work on developed democracies argues similarly that voters and the media can hold politicians accountable for their promises they make during campaigns.\textsuperscript{190} Interest groups can tie the hands of politicians by getting them to sign public pledges, and then mobilizing voters to punish defectors.

\textsuperscript{188} Interview with Anton Tomachev, local businessperson, Perm, October 8, 2013.

\textsuperscript{189} Macher and Mayo (2015); Lawton, McGuire, and Rajwani (2013).

\textsuperscript{190} Tomz and Van Houweling (2012).
In sum, greater democratization compels firms to choose indirect political strategies rather than running for office themselves.

Although strengthening citizen accountability may help reduce corruption,¹⁹¹ I argue that democratic institutions do not fully explain the variation in businessperson candidacy across different contexts. First, the claim that voters are able to punish politician malfeasance requires that voters can identify the actions of businessperson politicians to divert resources 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. However, growing evidence exists that voters make mistakes not only about attribution, but about the nature of the actual policies in question.¹⁹²

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 when voters can 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.¹⁹³ The demands of hiding preferential treatment may be one reason why evidence of the effectiveness of corporate political strategies is so mixed. Simple analyses of voting records and readily observable political behavior may not uncover behind-the-scenes cooperation between firms and politicians. Because politicians are aware of the potential electoral risks of advocating special interests in public office, they rationally maneuver to prevent voters from learning about this behavior.

Even if a voter expects that any candidate from a business background will defend their firm’s interests partly at the overall public’s expense, this fact alone may not dissuade the voter from lending his or her 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

¹⁹¹ Ferraz and Finan (2008).
¹⁹² Healy and Malhotra (2013).
voters of a politician’s ability to better negotiate for the needs of constituents.\(^{194}\)

Interviews in Russia suggest that businesspeople (and politicians more generally) are not especially concerned about potential blowback from voters for pushing their interests while in office. Several currently serving deputies dismissed the willingness and ability of voters to think broadly about how politicians were performing and evaluate them on their commitment to the public interest.\(^{195}\) 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.\(^{196}\) Recent events weigh much more heavily than the actions taken over the full term, potentially leaving politicians many tools to mask their own performance and 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.

In addition, businesspeople may not be as interested in running for reelection as professional politicians, who have staked their careers on continuously occupying political office. Though some businesspeople may prize their legacy in office, running for office is a still a non-market strategy designed at improving firm performance. Winning an election gives a firm multiple years in power to achieve their political aims; a single term in office may be more than enough time. This seems to be the case in Russia, as businesspeople run for reelection at rate roughly six percentage points lower than politicians with other types of backgrounds.\(^{197}\) Even if voters catch on to their corrupt dealings, with the exception of rare cases, they cannot simply recall politicians within a term for not providing sufficient public goods. The threat of voter punishment during a reelection campaign may not loom as large.

In the empirical analysis, I include commonly accepted measures of democracy as a control variable to account for this theoretical explanation. The key mechanisms to test run through accountability: can

\(^{194}\) For more on how businesspeople play up their management experience, see Chapter 6.

\(^{195}\) 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.

\(^{196}\) Bartels (2008); Healy and Malhotra (2009).

\(^{197}\) See the explanation of the data in Chapter 2.
voters hold politicians accountable for the promises they make during elections, and vote them out of office? Do civil society organizations provide an adequate check on egregious abuses of political power, such as rent-seeking? Do politicians fear an active, independent media that will shed light on their corrupt actions in office? If stronger democratization indeed deters entry from businessperson candidates as previously argued, then we should expect negative relationships from variables capturing these dimensions and the number of businesspeople running for office.

This theoretical pathway for democracy is separate from political party strength, which I argue is negatively correlated with interest among firm directors in running for office. In this reading, it is not the level of public accountability, but the centralizing forces and reputational concerns inherent to strong political parties that constrain politicians from acting opportunistically and breaking promises. Political parties are investing more in preserving brands and retaining financial support within society, and thus provide more sustainable avenues through which business can buy policy needs. Hence it is parties’ worries over losing donors, and not voters, that prompt strong parties to reign in deputies that abuse their power in office.

1.5.2 Collective Action by Trade Associations, Alliances, and Business-Led Political Parties

Corporate political strategy, no matter the avenue taken, is costly for firms. These expenses, taken together with the complexities of passing policies, often drive firms to cooperate in their appeals to policymakers. Trade associations are key actors in promoting business’s political interests, whether by lobbying officials, developing public relations strategies, or funding campaigns.\footnote{Doner and Schneider (2000); Duvanova (2013).} Associations may be organized along sectoral lines to achieve broader aims, as similarities in the nature of production lines and markets demand coordinated policy interventions. The collective weight of member firms increases their bargaining power in the political arena and raises the likelihood of successes in achieving legislation. Firms could credibly threaten to exit markets and collectively punish politicians who defect on promises.

Trade associations could also help solve the coordination problem that arises from businessperson candidacy. 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, when some businesspeople opt to run for office, others mimic their strategy in order to keep up. I argued above that once one firm achieves direct representation, the expected benefits of lobbying decline. By facilitating dialogue and enforcing agreements, trade associations could enable firms to coordinate not to run candidates in elections, and instead organize lobbying activity collectively. Where business associations are stronger, we might expect firms to forgo the direct strategy of running their own candidates. In the empirical analysis, I test whether firms view membership in trade associations as a superior strategy to running candidates in elections, finding that these avenues for collective action do little to solve persistent shirking problems.

Markus (2012) describes another form of collective action potentially available to firms: the construction of “stakeholder alliances” that incentivize different actors within society such as foreign investors, community organizations, and labor unions to place pressure on governments on behalf of firms. As a defensive strategy, “stakeholder alliances” can allow companies to increase the costs for officials in engaging in expropriation and predation. But for developing relationships with elected relationships, alliances began to show limitations. Although societal actors may excel at drumming up negative publicity about corporate raiding, their ability to compel politicians to hold fast to informal agreements with special interests is much weaker. Community groups and labor unions may also be less interested in advocating firms’ political interests, such as subsidies, tax relief, or regulatory support. Therefore, while these alliances may prove effective in certain domains, they are unlikely to offer a true substitute for direct political strategies. In Chapter 3, I use survey data to test this proposition.

Beyond associations and alliances, some countries around the world have seen the rise of political parties, or at a minimum legislative factions, that collectively represent the interests of business. In Brazil, the open-list proportional representation facilitates the formation of groups of legislators from the agricultural sector banding together into the “Bancada Ruralista.” This cross-regional faction helped secure targeted transfers, for example, to soy producers. Across Latin America, so-called “corporation-based parties” have sprung up, repurposing “financial

institutions, marketing divisions, retail networks, logistical chains, and legal firms” to help them politically. Though current research positions these new parties as stewards of middle-class concerns, it is certainly within the realm of possibility that party leaders advocate for firm interests upon winning power.

A few caveats are in order. First, the majority of corporation-based parties, at least in Latin America, do not bring together disparate business groups with competing financial interests. According to Barndt (2014, p. 16),

This is partly because the collective action dilemmas entailed in a particular business sponsoring a party are much less daunting than those entailed in broad-based party building by the business class. When a single conglomerate builds a party, it does not have to negotiate the organization or goals of that party with other businesses. Sponsorship by one conglomerate thus represents a particularly effective form of business party building in Latin America today.

The Russian business community faces similar challenges. Financial-industrial groups have historically sponsored their own political groupings and fielded their own candidates, bringing to bear their incredible economic resources to push for narrow company interests. Cooperation across rivals is lacking, and political parties have not taken up the banner to solve the coordination problems. To quote the political scientist Petr Panov, “United Russia is not united.” Deputies protect their own firm’s interests, but never those of another sector. In Chapter 4, I explore in much greater detail how businesses choose party affiliations, and the sectoral splintering across party lines that develops.

Even the agricultural sector in Russia has had little success coalescing behind one or another political party. Perhaps the most appealing political vehicle for agricultural groups is the Agrarian Party, founded in 1993 and advocating a leftwing ideological approach to reforming Russia. During the 1990s, much of the lobbying of the agricultural sector in the State Duma ran through this party. However, with the rise of United Russia and changes to electoral rules, the party began quickly shedding support in the early 2000s. From 2004 to 2008, only 2 percent of candidates to regional legislatures ran with an Agrarian Party affiliation. In 2008, the party’s inability to win seats at either the regional or federal level led it to merge with United Russia, later dropping much

200 Barndt (2014, p. 6).
201 Hale (2005).
202 Interview with Petr Panov, political scientist, Perm. October 3, 2013.
of its socialist platform and putting forth fewer and fewer candidates under its banner. As described in Chapter 4, agricultural interests rarely fit neatly within specific groups. Deputies representing various dairy sector interests in Orlov sectors ran as independents or under United Russia. Two leading forestry firms in Primorskye Kray, Primorskiylesprom and Terneyles, supported their own candidates for regional office rather than consolidating and working together. Economic rivalry again trumps cooperation.

1.5.3 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 personal factors in affecting their political ambitions. 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. 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.

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 gives them unique qualifications. Egos exert a powerful pull: the taste of financial success and profits can go straight to the head of a self-made businessperson, who sees himself as an outsider and a needed correction to politics as usual. Citing a growing personal commitment to larger societal problems, candidacy is also seen as a logical next step after achieving success (and growing bored) at one’s firm. Politicians may also reap considerable individual financial benefits, both while in office and afterwards; the lure

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203 Roberts (2018).
204 Maestas et al. (2006); Fox and Lawless (2011).
206 Interview with Andrei Starkov, businessman and regional deputy, Perm, Russia. June 10, 2014.
of additional personal earnings can loom large for an individual accustomed to prosperity.\textsuperscript{207} We also cannot discount those candidates who run office to do good in their communities. 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. Other businesspeople view political office as a means to providing input on budget affairs or ensuring that the budget system works properly.\textsuperscript{208} In Chapter 6, I put to the test the arguments that some politicians apply their private sector experience to improve constituents’ livelihoods.

Such personal ambitions do matter for determining which individuals seek office.\textsuperscript{209} However, my interviews with both candidates and observers in Russia indicate that economic, firm-based motivations are much more important. As we will see, nearly 40 percent of all candidates come straight from the private sector. As strong as ego-motivations may be, that frequency suggests other financial incentives are at stake. In fact, the presence of motivations coming from individual personalities and psychological comportments would bias against finding relationships between businessperson candidacy and specific firm characteristics, economic conditions, and the strength of political institutions. Moreover, as I investigate further in Chapter 5, we might not expect firms to benefit so handsomely from having a director in office if that individual was only there to stroke her or her own ego. Businessperson politicians on the whole spend their time in office working on behalf of their firms.

\textbf{1.6 DISCUSSION AND CONCLUDING REMARKS}

The theory developed above builds on a number of theoretical works that argue economic competition has a powerful impact on corporate strategy. Firms encounter their rivals in the political arena, just as they do in economic markets. Politics, in this reading, resembles a zero-sum game: individual firms benefit from targeted policies, while others lose.\textsuperscript{210} The political gains achieved by one firm incentivize its rivals to adopt similar strategies. Economic competition breeds political competition in the pursuit of profits that only policies can unlock. As competition intensifies,

\textsuperscript{207} Eggers and Hainmueller (2009); Gagliarducci, Nannicini, and Naticchioni (2010).
\textsuperscript{208} Tagadryan (2007a).
\textsuperscript{209} Maestas et al. (2006); Fox and Lawless (2011).
\textsuperscript{210} Bonardi, Hillman, and Keim (2005).
the demand for access increases, especially to political institutions such as legislatures that offer a fixed amount of goods (seats). When firms cannot coordinate their political efforts beforehand, we should see a greater number adopt individualistic strategies, culminating in businessperson candidacy.

The arguments in this chapter also make the case that businessperson candidacy emerges when normal politics breaks down. Businesspeople are often not natural politicians: the opportunity costs of running for office are much higher, given the collective duties they assume responsibility for in the public and private sectors. But when indirect political strategies become ineffective or untrustworthy, winning a seat in a legislature becomes an imperative. Thus, professional politicians who fail to champion powerful interest groups within society risk being supplanted by representatives 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.