

**Business Representation in Eastern Europe:
The Failure of Corporatism?**

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Abstract:

In the 1990s, pluralist and corporatist models of business representation emerged in East European countries. Subsequently, some corporatist-style systems were abandoned, others evolved towards greater pluralism. Analysis of compulsory and voluntary business and employer organizations in the post-communist countries suggests that despite different legislative and institutional frameworks adopted at the outset of transition, patterns of business representation exhibit a degree of convergence in Eastern Europe. I explain this failure of corporatism by arguing that corporatist-style institutions have been ineffective in channeling the interests of business community. This gave rise to the voluntary associations competing with the officially designated groups for business representation and business “protection.” This paper substantiates this claim with references to the mathematical model of organizational formation and empirical evidence from Croatia—a representative case of the corporatist-style business representation system.

1. Business Representation and Post-Communist Political Economy

Institutions of business representation and coordination shape the patterns of business-state relations, labor policies and conditions, lobbying strategies and outcomes, and other aspects of economic organization that define the nature of capitalism (Hall & Soskice, 2001; Hall & Soskice, 2004; Hiscox & Rickard, 2002). Such institutions have been broadly categorized along the pluralist-corporatist lines (Lehmbruch, 1982; Lijphart & Crepaz; Schmitter & Lehmbruch, 1979; Hodgson, 1998). This division has affected the way we think about different types of capitalist economies in the world and in the 1990s seemed to be easily transferable to the emerging capitalist economies in post-communist Europe and Eurasia. Back then, some countries endorsed the pluralist model of business-state interactions based on the development of multiple, competing voluntary organizations. Others favored corporatist-style institutions based on compulsory membership in peak associations monopolizing representation. Despite historical institutional legacies, underlying legal frameworks, and official support for compulsory business representative organizations, most of the corporatist-style systems have eroded throughout the 1990s to incorporate many elements of competition and voluntarism. This paper investigates the factors accounting for this failure of corporatism in Eastern Europe.

I explore similarities and differences in the systems of business interest representation across the post-communist countries of Eastern Europe and Eurasia, paying special attention to the institutional foundations that underlie the creation and development of post-communist business representation. A close look at the formation and development of business associations, their activities, and their membership suggests that despite different legislative and institutional frameworks adopted at the outset of transition, patterns of business representation exhibit a degree of convergence throughout post-communist states. This finding goes contrary to the

plethora of scholarly accounts of the growing dissimilarities between post-communist countries in the political, economic, and social spheres (Ericson, 1992; Crawford, 1995; Stark, 1996; Holmes, 1996; Stark & Bruszt, 1998; King, 2000; Fish, 2001). If the arguments presented in this paper are correct, business representation might represent one of very few areas of increasing (since the early 1990s) homogenization across post-communist countries.

Theoretical and empirical studies point to associations representing business interests as potentially important actors in directing the trajectories and producing the outcomes of socio-economic transformation. However, we know little about the emerging systems of interest group representation in post-communist countries. Apart from several ground-breaking publications addressing the economic and political effects of formal business organizations (Recanatini & Ryterman, 2001; Campos & Giovannoni, 2005; Pyle, 2006), there has been little research on these important institutions of civil society that have emerged as perhaps the only post-communist civic associations successful in building enduring membership, financial independence, and organizational stability. By examining the genesis of business organizations and state-business relationship at the very dawn of the market economy, this paper makes a critical step in advancing a more general understanding of the development of capitalism in post-communist countries. It contributes to the on-going exploration of the evolving patterns of governance in the region and speaks to the issue of the evolution of corporatism in the cross-regional perspective.

I use specific and easily-measured criteria to distinguish between two distinct types of business representation: the existence of compulsory peak organizations created and officially recognized by the state as exclusive channels of business representation and self-regulation (Schmitter & Lehmbruch, 1979; Rosenthal, 2001). Pluralist systems are defined as based on

voluntarism and competition. Such definitions are in line with the literature, are based on the formal structure characteristics, and avoid the outcome variables associated with one or the other type of interest representation. Taking into account more subtle variations distinguishing institutional, functional, and relational forms of groups representation—the permanent or occasional tri-partite negotiations (Waller, 1994), cohesion of positions and policies in corresponding area (Myant, 1994), government’s preferential treatment of loyal but not necessarily representative groups (Colton, 1992; Kubicek, 1996), or domination of the umbrella associations (Remington, 2004)—has led many authors to stretch the notion of corporatism beyond its conventional meaning.¹ Concentrating on the “soft” features of corporatism presents a danger of losing the analytical utility of the corporatist-pluralist distinction and creates the need to introduce a number of qualifiers (e.g. pseudo-, post-communist, mixed, etc.). No doubt, the post-communist cases analyzed below would not provide the perfect fit for the ideal types of corporatist and pluralist interest representation. For the sake of conceptual clarity, however, I refrain from stretching the terms to accommodate any idiosyncratic features. Instead, I will clearly demarcate the categories and specify the ways in which analyzed cases diverge from the strictly defined analytical categories.

The paper is organized as follows. The next section describes empirical developments across the post-communist world in regards to the institutional framework of business representation. The historical sketch of the development of systems of business representation in the post-communist countries points to a puzzling situation; corporatist-style legal frameworks adopted by some countries in the early 1990s did not preclude the development of de-facto

¹ For instance, Waller (1994) talks about a “form of pluralism with corporatist features” (p. 34), Remington (2004) labels Russia as a corporatist system because although “...there is a plurality of associations ...there is a tendency to the domination of the umbrella all-Russian associations” (p. 152). The pluralist-corporatist distinction adopted in this paper rules out such obscure labels and classifications.

pluralism in the subsequent years. In order to explain such a paradoxical outcome, section three models the choice of business participation in associations as a strategic interaction between the state, business associations, and firms. One implication of such a model is that corporatist-style institutions should be less effective in channeling the interests of business community; thus, demands for alternative means of representation should emerge in the corporatist-style regimes. Section 4 presents a more detailed account of the erosion of the corporatist representation system in one of the post-communist countries—Croatia. The section provides qualitative evidence in support of my hypotheses. Conclusion concludes.

2. From Difference to Convergence: The Development of Post-Communist Systems of Business Representation

The early 1990s witnessed the formation of a number of associations aimed at representing the interests of business in different countries, regions, and sectors of the economy (Wyn, 1993; Ingleby, 1996; Recanatini & Ryterman, 2001; McMenamin, 2002; Remington, 2004; Pyle, 2006). The emerging systems of business representation, however, were structured along different organizational principles following what, at the time, seemed to be distinct models of state-society relations—corporatism and pluralism. The corporatist-pluralist analytical framework has long been developed by the students of interest group politics to refer to the structures of state-group interaction. While pluralism has been characterized by the existence of multiple competing organizations representing different social interests—labor, farmers, professionals, business etc. (Olson, 1965), the corporatist (neo-corporatist) arrangements are associated with the existence of encompassing associations organized in a highly hierarchical manner, and effectively monopolizing group representation vis-à-vis the state (Cawson, 1986; Lehbruch, 1982). Such analytical categories, although lacking important nuances, are useful for the study of the systems of business representation developing in post-communist countries.

It should be kept in mind that this research is concerned with the patterns of business representation which might or might not be paralleled by structures of representation of other social interests.

Business associations representing first the interests of managers of state owned and privatized enterprises and later de novo private businesses, including small and foreign firms, have become a considerable social force in many post-communist countries.² In comparison to other special interest groups in the post-communist settings, business associations have enjoyed greater membership, organizational strength, and resources. By the end of 1990s, overall organizational strength and membership figures varied dramatically across country borders. Some countries enjoyed up to a 70% membership rate by the end of the 1990s while others lagged with under 10% of firms reporting membership in associations (BEEPS, 2000). One particular institution is pivotal for understanding the differential organizational forms and participatory dynamics—the Chambers of Commerce and Industry.

Although at the beginning of economic transition communist countries lacked a developed business community, organizations uniting employers and managerial elites preceded capitalist transition and the formed genuine business elites (Waller, 1994; Fortescue, 1997; Remington, 2004, Kubicek, 1996). In this respect, the post-communist organizational landscape in the early 1990s was not a *tabula rasa*, as many early accounts of the post-communist civil society suggested (Jowitt, 1992, Schopflin, 1994; Geddes, 1995; see also McMenemy, 2002 evaluating the “flattened landscape” hypothesis). Under the communist times, all countries of

² Analyzing activities of one Russian business association, Remington (2004), for instance, writes: “The RUIE [Russian Union of Industrialists and Employers] is the single most powerful organized interest group in Russia” (p. 153). Fink-Hafner and Krasovec (2005) echo Remington’s assessment of business interests: “... interest groups with more independent resources and greater power (especially economic interest groups) have succeeded in their pressure to create more institutionalized policy networks with an important influence on behalf of non-state actors” (p. 414).

Eastern Europe and the Soviet Republics had quasi-state Chambers of Commerce and Industry that coordinated inter-state trade and economic cooperation, mediated cross-enterprise disputes, and performed product inspection. Following the political transitions, such organizations were re-organized as public entities independent from the state.

National Chambers of Commerce and Industry were created in all post-communist countries by special pieces of legislation. Many countries passed additional laws regulating the formation of institutions of business representation. The emerging systems of representation generally followed two patterns, as some countries opted for the so-called continental chamber system that emphasized compulsory membership and exclusive claims for representation on the part of the Chambers of Commerce created from the top down (for the Hungarian case, see Ingleby, 1996). The legal framework in the majority of the post-communist states, however, provided for voluntary membership in Chambers of Commerce and other business and employer associations and created conditions for the emergence of organizational pluralism in the sphere of business representation and self-coordination (See Fortescue, 1997, for the Russian case).

In line with the corporatist model of representation, the successor states to the former Yugoslavia, Albania, Hungary, and Slovakia (Ingleby, 1996; Luksic, 2003) have created compulsory business organizations with guaranteed access to political decision making, exclusive participation in the mechanisms of tripartite negotiations, and were given a number of state-prescribed functions in the sphere of economic regulations. Such institutional arrangements—hierarchical territorial and sectoral structures, regulatory functions formerly performed by the state institutions, and a compulsory membership³—have been explicitly modeled after the “continental European” (predominantly Austrian and Italian) chambers system.

³ In most cases, compulsory membership is automatic for all enterprises filing their incorporation documents with the state authorities.

There has been some variation in this group of countries to the extent of organizational fragmentation of compulsory representation. Some countries (e.g. Albania and Slovenia) established centralized organizational structures uniting the entire business sector (Luksic, 2003; Fink-Hafner & Krasovec, 2005). Others, such as Croatia or Hungary, created several compulsory hierarchical organizations that split the responsibility for organizing small artisan-type producers, industrial enterprises, and the agricultural sector. Despite these differences in the number of the hierarchically organized compulsory groups, their functions, internal structures, and patterns of interaction with the state have exhibited strong similarities within the corporatist-type category while drastically differing from those organizations developed in the pluralist context.

Other countries in the region, including Poland, Czech Republic, Bulgaria, Romania, Baltic countries, CIS, and Mongolia, have re-organized their communist-era Chambers of Commerce along the lines of voluntary membership, removing virtually all state backing of the chambers and creating legislative frameworks for the formation of alternative organizations for business representation, coordination, and self-governance. Table 1 groups the post-communist countries according to the basis of membership in Chambers of Commerce.

Figure 1. National Chambers of Commerce (Industry, Economy, Crafts and Trade, etc.)

Compulsory Membership ⁴	Transitioned from Compulsory to voluntary	Voluntary membership ⁵
Albania (6 000)* Bosnia-Herzegovina (40 000) Croatia (64 508) Macedonia (32 000) Montenegro Serbia (62 000) Slovenia (53 000)	Hungary 2000 (400 000) Slovakia 1996 (1 748)	Bulgaria (35 000) Czech Republic (15 000) Estonia (3 318) Latvia Lithuania Poland (500 000) Romania (6 000)
		Armenia Azerbaijan Belarus (1 400) Georgia (1 000) Kazakhstan (670) Kyrgyz Republic Russia (32 000) Moldova Mongolia Tajikistan (170) Ukraine (3 810) Uzbekistan

* Official membership figures, where available, are reported in parentheses. Source: Central European Initiative, Euro Chamber, available at <http://www.unioncamere.net/cei/whoswho.htm> and country-chambers web pages.

Adoption of such different institutional structures of business representation can be explained through path dependencies and the institutional continuity of the Chambers structures. Chambers of Commerce (or Chambers of Trade and Crafts) trace their history to the 19th century chambers established throughout Eastern Europe under the influence of the West European tradition or that grew out of the indigenous medieval merchant associations. For example, in the

⁴ Categories of enterprises obligated to join Chambers of Commerce differ across countries. Albania, for instance, excludes agricultural enterprises, while Croatia has additional compulsory associations for cooperatives (mostly agricultural) and artisans. Serbia effectively excludes micro business from the compulsory membership clause.

⁵ Refers to member enterprises. Some countries require local employer organizations to join corresponding national organizations. Ukrainian legislation, for example, mandates that all provincial and local organizations that use the name “Chamber of Commerce” are part of the national Chambers of Commerce system.

Austro-Hungarian partition of Poland, the first Chambers were created in 1850, in the Prussian partition, they were created in 1951 (Wykretowicz, 2004). The Croatian Chamber of Economy in Zagreb was established in 1852; although in the City of Dubrovnik that traditionally engaged in European maritime trade, the Chamber of Economy was created as early as 1808 (www.hgk.hr). The history of voluntary merchant associations in the Russian Empire dates back to the Moscow Merchant Society established in 1813 (www.tpp.org.ru). Compulsory merchant organizations were established in Russia in 1909 under the name of Chambers of Commerce; however, they did not survive the revolution.

Eastern Europe has been influenced by two competing traditions of business representation and self-regulation. In the areas that, in the 19th century, were directly occupied or strongly influenced by Austria and Prussia, a compulsory-membership chamber system has taken root. This compulsory encompassing system was historically a French creation, first established by Napoleon Bonaparte in 1802, and later introduced to the rest of Europe in the course of Napoleonic conquest. Where such influence has not been profound, traditions of voluntary business associations have developed. Baltic States in the intra-war era, for instance, have established Chambers of Commerce and Crafts based on voluntary membership.⁶

Under communist rule, both the compulsory, state-affiliated chambers of commerce and voluntary organizations of the capital were first liquidated and later re-created as state-controlled organizations serving the coordinative, intermediating, and standard-setting functions predominantly in foreign trade. They were designed to parallel some functions performed by western business associations (third-party arbitration, certification, and facilitation of economic contacts) and largely served as institutional facades for the state-planned economies in the

⁶ With French capital and commerce playing an important role in the economic development of Eastern Europe in the 19th and early 20th centuries, the compulsory chamber tradition has influenced all of Eastern Europe, hence, the Russian compulsory experiment of 1909 and Polish all-encompassing chambers of the interwar period.

international economic relations. Such organizations, however, were not genuine associations of businesses because 1) they did not rely on membership for their survival; 2) were financed, staffed, and directed by the state institutions (ministries), and 3) were lacking any representative functions vis-à-vis the state. Membership in these organizations was either non-existent or nominal. As a result, despite institutional continuity of the Chambers throughout the communist era, these organizations have lost their substantive significance and were reduced to the formal institutional shells operating as mere extensions of the state bureaucracy.

Re-definition of Chamber networks as a part of the newly emerging systems of business interest representation that followed the post-communist transitions has, for the most part, been a re-discovery of pre-communist patterns of business organization. It is of little surprise, therefore, that the majority of countries with pre-communist legacies that were associated with the Austro-Hungarian empire—Hungary, Croatia, Slovenia, Slovakia, Bosnia-Herzegovina—have re-created compulsory chamber system with universalistic claims for business representation, while countries ruled by the Russian empire, as well as Bulgaria and Romania, have adopted voluntary pluralist arrangements. More interesting in this respect are the cases of Poland and Czech Republic. Their deviation from 19th century and interwar institutional patterns might either be a tribute to the indigenous traditions of the medieval voluntary merchant institutions preceding foreign-imposed Chambers or the desire to stimulate the development of societal voluntarism and pluralist competition deemed essential for the survival of their new democracies.

Following the creation of the legislative foundations that put East European countries on the diverging paths of business representation, interesting developments were under way in a number of countries. The compulsory system, for the most part, did not lived up to the high expectations on the parts of business and governments. Although representative and regulating

functions of the compulsory Chambers were expected to generate close integration of the business community into the political processes and a gradual development of beneficial self-regulation, businesses in different countries started voicing their dissatisfaction with the compulsory nature of the system and the inability of the Chambers to adequately reflect their demands and protect their interests. In particular, the compulsory Chambers were criticized for giving little recognition—and virtually no representation—to the small business sector and industries undergoing profound transformation. The official response to this criticism ranged from the legislation mandating the creation of a specialized compulsory organization for the representation of under-represented sectors (Croatia, 1993), reforms of the internal organizational and governance structures of the Chamber (Serbia, 2001; 2003, Croatia, 1994), and the abandonment of the compulsory membership clause altogether (Slovakia, 1996, Hungary, 2000).

On the part of the business community, spreading dissatisfaction with the work of the compulsory chambers has produced the spontaneous self-organization of rival business associations in all post-communist countries. A number of sector-specific and cross-sector organizations emerged to represent businesses who felt their interests and vision were ignored by the state-created compulsory Chambers. Such alternatives to the official Chambers included organizations of the small business and the leading industrial enterprises, banks, and trade corporations. Perhaps the largest and the most influential of such voluntary associations are the national Employer Associations that by the late 1990s had organized predominantly large business in different countries of the region. In such countries as Croatia and Macedonia, the employer associations have successfully demanded an exclusive role in the tripartite negotiations, becoming the official organization representing countries' business in concluding

general agreements in the sphere of labor relations. In Slovenia, the Association of Employers unites over 1,200 enterprises that jointly constitute about half of the entire private sector.

In Albania, the first voluntary business association providing an organizational alternative to the official Chambers—Union of Democratic Businessmen—was created in 1993. Nowadays, the two largest voluntary umbrella business associations are the Albanian Council of Employer Organizations and the Union of Organizations of Albanian Businesses. Similarly, two major voluntary associations compete for membership in Serbia and Montenegro: the Serbian and Montenegro's Employers' Association and the Association of Industrialists and Entrepreneurs of Serbia and Montenegro. There has been a steady increase in the number of sector- and issue-specific voluntary associations throughout the region, in both pluralist-type and corporatist-type systems. Examples of successful voluntary associations developed alongside the compulsory Chamber systems include the National Real Estate Association and the Professional and Business Women Association in Albania, the Association of Serbian Banks, the "Krov" Association of Real Estate Agencies of Serbia and Montenegro, the Croatian Association of Travel Agencies, and the Association of Croatian Exporters.

Paradoxically, compulsory representation system instead of creating favorable conditions for business representation and coordination by providing a strong resource base, solid legal foundation for the business role in political decision-making, and, most importantly, solving the problem of collective action involved in the initial organization, started crumbling. Although participation in and contributions to voluntary associations do not replace the need to pay compulsory membership dues, businesses in corporatist systems have formed and actively participate in alternative associations. Some of such associations not only attained considerable membership, expanded their functions and activities, and actively participated in the political

process, but also attained an officially recognized status in representing the business community. Finally, two countries have replaced compulsory corporatist-type institutions with pluralist systems. These developments point to a de-facto erosion of corporatist-style systems of business representation in Eastern Europe. Why has this been the case?

Despite the clear advantages of compulsory organization in solving the collective action problem of organization and contributions, the compulsory Chamber systems seem to have failed to satisfy the needs of at least a part of the business community. Naturally, some dissatisfaction with the compulsory chamber systems stems from the fact that businessmen might perceive organizational dues as a tax applied universally, without adding any benefits to the firms. Still this does not explain why businesses throughout the corporatist systems were eager to join alternative voluntary associations—a decision involving additional contributions of time and money. This taps into the underlying fundamental problem of collective action. Why such indisputably rational and money-maximizing actors as firms and individual businessmen would participate in a collective action of forming a voluntary organization subject to free-riding especially when they are already a member of a compulsory group presenting no dangers of free-riding and under-provision of collective goods?

To solve this apparent paradox, I step back and consider the choice of participating in business associations as a strategic interaction between firms, the state bureaucracy, and business associations. The model developed in the following section, insofar as it is a choice model applies specifically to the voluntary association formation. Still, as will be shown later, it has important implications for the behavior of associations and firms in compulsory settings. On the basis of the formalized model of business participation in associations, I advance an argument suggesting that compulsory encompassing associations are less motivated to provide the services

most sought by firms in post-communist settings and, thus, are necessarily inferior to the well-motivated voluntary organizational alternatives.

3. Modeling Business Participation

The major problem encountered in organizing a group of individuals or individual-like entities to pursue their common interest is the problem of free-riding—the collective action problem. Since its formulation by Olson (1956), multiple solutions have been proposed, ranging from self-enforcing mechanisms that relied on the characteristics of the groups to third-party enforcement through the state and other institutional mechanisms. A definite solution to the collective action problem is provided by the corporatist-type compulsory institutions where the state creates rules and punishes free-riders. Formation of voluntary associations, on the other hand, is not enforced by an outside authority. Thus, assuming that membership in associations entails both costs and benefits, other solutions should be considered in the pluralist context. Among the usual suspects are the small group size, high value of future benefits, learning or cultural predispositions—social capital, and selective incentives, and the particularistic goods available through membership that reduce the opportunities for free-riding and under-contributing.

All but the last solution seem to function poorly in the post-communist context. The existence of large business and employer associations that transcend sector and regional divisions attests to the fact that diversity of interests and multitude of group members do not preclude voluntary groups from forming. In fact, cross-industry associations have been the first ones to form in Eastern Europe well before the formation of industry-specific groups (Fortescue, 1997; Pyle, unpublished paper). The long-term utility horizon also seems to be of low relevance in the highly volatile and unpredictable transitional economies. Explanations emphasizing cultural predispositions to participation in organization contradict the wide-spread recognition of

the detrimental effect of the “Leninist legacies” on generalized social trust and, more specifically, trust in formal organizations that, during the decades of communism, served as the instruments of state control rather than of self-governance and interest articulation (Geddes, 1995). Particularistic benefits that associations provide exclusively (or cost-effectively) to their members, therefore, appear to be the most suitable for the post-communist context solution to the collective action problem. Empirically, it has been shown that functions and activities of voluntary business associations developed in the post-communist countries include various particularistic benefits that have been of important value to associations’ members (Pyle, 2006; Duvanova, forthcoming).

Particularistic goods along with the collective goods provided by associations become the important factors affecting participation in associations. My field work in Russia, Ukraine, and Croatia has revealed that provision of information, expert advice, training, legal assistance, and other types of “protection” against rapidly changing rules, regulations, and procedures affecting businesses are the most demanded services provided by business associations to their members. An unpredictable and often stringent regulatory environment has been cited as one of the most important impediment to businesses in transitional economies (CEFIR, 2002; TI-Moldova, 2002; Murray, 1999). It has been suggested that lobbying and corruption are the two alternative ways of advancing business interests in these settings (Miller et al., 1999; Campos & Giovannoni, 2005). Consider the following model of business participation in voluntary associations that integrates business desire to minimize the cost of compliance with state rules and regulations governing economic activities.

3.1. Voluntary Business Organization

The players are a firm (F), a bureaucrat (B), and an organization (O). All are assumed to be rational utility maximizers. They maximize income, which for the firm involves considerations of revenue (r), cost of production (c_p) and regulatory cost (c_r). The bureaucrat's income is derived from his/her salary (s) and any bribe (b) s/he might receive as a "side payment" from the firm. The organization's income is a function of the membership and consists of the difference between dues d charged and particularistic goods g provided. The particularistic good g , or selective incentive, is in the form of legal and professional help in complying with rules and regulations.

The firm chooses among three options for satisfying regulatory requirements: *comply* with existing regulations at a cost of c_r , *bribe* the bureaucrat, or *join* the organization and receive assistance in complying with existing regulations. The bureaucrat chooses to be *honest* or *corrupt*; a corrupt bureaucrat must decide on the amount of a bribe, b , to charge the firm in exchange for overlooking regulatory violations. The organization decides on a level of dues, d , and on the amount of a particularistic good, g , that will be provided to the firm, subject to F paying d . If the firm and bureaucrat engage in corrupt behavior, both risk being prosecuted with probability (p) and paying a fine, (f). The firm maximizes income, (I_F) as defined below, where r is total revenue and c_p is cost of production.

$$I_F(\text{comply}) = r - c_p - c_r$$

$$I_F(\text{bribe}) = r - c_p - b - pf$$

$$I_F(\text{join}) = r - c_p - c_r - d + g$$

The bureaucrat maximizes income, I_B , where s is salary.

$$I_B(\text{honest}) = s$$

$$I_B(\text{honest}) = s + b - pf$$

I assume that the organization's payoff is an increasing function of membership and is greater when F joins than when F does not join. The organization therefore maximizes $(d - g)$ or, equivalently, minimizes $(g - d)$, subject to F joining.

The bureaucrat and the organization make simultaneous proposals to the firm. The bureaucrat proposes a bribe, b , and the organization proposes dues, d , and a selective good, g . The firm then chooses *comply*, *bribe*, or *join*. Equilibrium outcomes will be Nash. The firm chooses *join* over *comply* if and only if $I_F(\text{join}) > I_F(\text{comply})$ or, equivalently, $g > d$. Similarly, the firm chooses *join* over *bribe* if and only if $I_F(\text{join}) > I_F(\text{bribe})$ or $c_r + d - g < b + pf$. Hence, in order to entice the firm into the organization, the organization must offer a combination of $(g - d)$ such that

$$(1) \quad g - d > c_r - b - pf.$$

The bureaucrat is corrupt whenever $I_B(\text{corrupt}) > I_B(\text{honest})$, or

$$(2) \quad b > pf.$$

To entice the firm into corrupt behavior, the bureaucrat must offer a bribe such that $I_F(\text{bribe}) > I_F(\text{join})$, or

$$(3) \quad b < c_r + d - g - pf.$$

Notice from (3) that if the organization proposes $(g - d) = c_r - pf$, then the necessary and sufficient condition for the firm to bribe rather than join is $b < 0$. The bureaucrat, however, will be honest rather than offer a negative bribe, and so, for $(g - d) = c_r - pf$, the firm joins rather than bribes and the bureaucrat chooses to be honest. In addition, assuming $c_r > pf$ so that

$g > d$, the firm joins rather than complies. This will not be an equilibrium, however, because the organization can do better than offering $(g - d) = c_r - pf$. The smallest $(d - g)$ the organization can offer and still deter the bureaucrat from corrupt behavior is $(d - g)$ such that $b < pf$ in (3). The organization's minimum offer that will entice the firm into membership is therefore $(g - d) = c_r - 2pf$, assuming $c_r > 2pf$. Given this offer, the bureaucrat's best response is honesty, and the firm's best response is to join.

3.2. Compulsory Business Organization

Consider what happens when compulsory membership is introduced. Since now the organization receives dues d with certainty and the firm joins irrespective of the amount of collective good g supplied⁷, d becomes absorbed in the firm's cost function. Compulsory membership reduces the firm's choices to *join and comply* and *join and bribe*, with the payoffs as follows:

$$I_F(\text{join} + \text{comply}) = r - c_p - c_r - d + g$$

$$I_F(\text{join} + \text{bribe}) = r - c_p - d - b - pf$$

Because particularistic good g is defined in terms of reduction in compliance cost c_r , when a firm selects *join and bribe*, effectively avoiding c_r , it also cannot receive the benefit g .

The organization maximizes its utility under the constant contribution d , by minimizing the collective good g .⁸ Assuming organizational regulations permit any non-negative level of public good provision, $I_O(\text{compulsory}) = d - g$ is maximized at $g = 0$. The bureaucrat proposes

⁷ Note that now g is a collective good due to the universalistic nature of organizational membership.

⁸ This follows from the assumption that the organization maximizes utility by minimizing $(g - d)$; that is, the greater the dues they can charge relative to the particularistic goods they offer, the larger is organization's utility. The model assumes constant contributions d specified by law in a compulsory system and allows organization to choose the level of collective good g . An alternative conceptualization would involve a set level of collective goods g mandated by the law and organizational choice over the amount of contribution d . Clearly organization would set d such that $(d - g) > 0$ and the model predictions would hold.

a bribe b , such that (2) holds; otherwise B is *honest*. The firm chooses *join and comply* over *join and bribe* if and only if $I_F(\text{join} + \text{comply}) > I_F(\text{join} + \text{bribe})$ or when $c_r - g < b + pf$. When $g = 0$ this reduces to $c_r < b + pf$. To entice the firm into corrupt behavior, the bureaucrat must offer a bribe such that $I_F(\text{join} + \text{bribe}) > I_F(\text{join} + \text{comply})$, or

$$(4) \quad b < c_r - pf .$$

Whenever $c_r > pf$, B 's best strategy is to offer $b < c_r - pf$ and F 's best strategy is to *bribe* rather than *comply*. When $c_r < pf$, the equilibrium outcomes are B : *honest*, F : *comply*, and O : $g = 0$.

Under compulsory membership, the firm's choice has been effectively reduced to *comply* vs. *bribe*, with the compulsory organization becoming an irrelevant actor in the firm-bureaucrat interaction. It follows that the compulsory organization in the equilibrium creates no benefits that would reduce the cost of regulatory compliance to the member firm, leaving this niche of activities open to other (voluntary) organizations. This brings us back to the voluntary organization game with the only difference being that compulsory membership fees are now incorporated as an obligatory payment in the firm's regulatory cost $c_r' = c_r + d$.

The major implications are as follows. First, participation in compulsory business associations does not substitute for participation in voluntary associations. Second, since compulsory membership dues effectively become part of the regulatory cost, particularistic benefits sought by voluntary associations might include measures directed against the compulsory membership systems.⁹

⁹ There are other important implications not directly relevant to the focus of this paper but highly suggestive for the study of business associations' development and bureaucratic corruption. First, assuming that under voluntary participation $(g - d) > 0$, *ceteris paribus* $b(3) < b(4)$. This means that under the compulsory organization settings corrupt bureaucrats can charge higher bribes in exchange for overlooking non-compliance. Second, all other things

These two implications of the strategic interaction modeled above provide analytical bases for explaining the observed empirical developments in the corporatist-style systems of business representation in Eastern Europe. Neither the emergence and growing participation in voluntary business associations nor reforms and abandonment of compulsory systems appear to be unexpected. The model suggest that irrespective of the existence of compulsory organizations, voluntary business associations should provide an attractive alternative to the unofficial ways of “getting things done” when regulatory compliance is a burden. Since compulsory organizations do not have to lure businesses in by offering valuable services that decrease the cost of doing business, voluntary associations offering such services will rise and attract new members. In effect, compulsory organizations’ lack of incentives to provide regulatory relief as a means of increasing membership preconditions the development of organizational pluralism.

Yet another extension of the model suggests that under the compulsory membership arrangements, membership dues, in fact, become an element of regulatory burden. This predicts the eventual breakdown of compulsory membership systems. Note that for such a prediction to hold, compulsory membership does not necessarily have to be associated with net losses, such that $d - g < 0$, it just has to be *perceived* as such. Even if compulsory organizations might be providing valuable services to the firms, by the nature of the system such goods are common to all firms in the economy and, thus, are unlikely to be seen as a direct result of compulsory organizational arrangements. Firms are likely to assume the provision of such good and services without giving credit to the compulsory association and legislative frameworks mandating universal participation and contributions. Thus, firms are likely to underestimate the benefits and

equal, organizations should be more prevalent in regimes where p or f are relatively high. Third, organizations should be less prevalent in regimes where c_p is relatively high. For associations to create a valuable alternative to corrupt behavior under burdensome regulatory pressures they would need to be particularly efficient in providing selective incentives.

overestimate the costs of compulsory membership and argue for its abandonment. Voluntary associations could start campaigning against such obligatory contributions to reduce the cost of compliance for their members. This would create an organized opposition to the compulsory membership system, increasing the chances of reforming the legislative underpinnings of the compulsory business representation.

So how does one know if this story is true for the post-communist cases? Clearly the model's implications are consistent with the erosion of corporatist-style regimes manifested in the development of multiple voluntary business associations, loss of monopoly on representation, and, in some cases, retreat from the compulsory institutional forms. But do the model assumptions in regard to the associational functions, enterprise demands, and bureaucratic position correspond to the reality? The following section offers a more detailed description of the formation and erosion of the compulsory system of interest representation in Croatia. The Croatian case is representative of the post-communist systems of business representation that were patterned after the "continental" chamber systems. Its institutions and developments in respect to business representation exhibit strong similarities to other countries of the former Yugoslavia. The country's system of interest representation, therefore, is representative of the large group of corporatist-style systems that, unlike those in Slovakia and Hungary have survived into the 2000s. By tracing the formation, functions, and activities of the official compulsory and a number of voluntary associations, I attempt to put some substantive "meat" on the bare bones of theoretical arguments.

4. Evolution of Business Representation: The Case of Croatia

Croatia, with its 55% membership rate in 2000 and 77% in 2003, is among the most participatory post-communist countries in respect to business representation. It is surpassed only

by its neighboring Slovenia, in 2000 by Hungary (Hungarian membership levels declined after the compulsory system was abolished), and in 2003 by Albania (BEEPS, 2000; 2003). Such enthusiastic participation in business associations is the consequence of the compulsory chambers system. In the early 1990s, Croatia adopted legislation that seemingly put the representation of economic interests on the neo-corporatist path. Peak associations—the Croatian Chamber of Economy (CCE), the Chamber of Trades and Crafts (CTC), and the Croatian Association of Cooperatives (CAC)—were created on the basis of compulsory membership for enterprises satisfying the requirements of size, official registration, sector, and location.

Given the peak associations' claims for universal membership and representation, it seems puzzling why the membership rates detected by the BEEP survey fall short of 100%. The explanation lies in the mechanisms of official enrollment in the compulsory associations. For the most part, membership in corresponding associations is automatic upon the official incorporation of an enterprise or licensing of entrepreneurial activity. Thus, many businessmen might simply be unaware of their membership status. Awareness about membership in associations usually comes as a result of firm's joining of a local or sectoral organization of the corresponding Chamber, which are the voluntary businesses' decisions (see below). Additionally, some spheres of economic activities, particularly in sectors dominated by small businesses that do not require special operation certificates are effectively exempt from the official membership requirement.

The central peak organization of the Croatian industry and commerce is the Croatian Chamber of Economy. CCE traces its history to the 19th century. The Chamber was established in 1852 following the European chambers of commerce tradition. The Chamber continued its operations—with a significant modification of its functions—when Croatia was integrated into Yugoslavia and survived as a part of the Yugoslav chamber system through the socialist period.

After the independence of the Republic of Croatia from Yugoslavia, the Chamber of Economy Act enacted by the Croatian Parliament in 1991 established CCE as a business organization independent from the government. The Chamber was structured as the only Chamber that represents all economic entities in the country, following the neo-corporatist public-legal model based on the compulsory membership and a comprehensive scope of prescribed activities. The official vision of the Chamber purpose and its place in the political and administrative systems specifically referred to the so-called continental model of Austrian and German chambers. Every company of at least 50 employees operating in Croatia and registered with the Commercial Court automatically becomes a member of the CCE.

The highest governing body of the CCE is the Assembly whose members elect Management and Supervisory Boards, the President, and five Vice Presidents responsible for different aspects of Chamber's activities. The Assembly members do not represent all the CCE member enterprises but are representatives of local chambers—usually “reputable” business people. The Chamber has seven sectoral departments covering respective branches of the economy and two centers responsible for education and statistics. It also has five additional business centers to implement specialized programs, the Permanent Arbitration Court, Conciliation Center that mediates in minor business conflicts, and the Court of Honor that enforces a Responsible Business Practice Code of business ethics that goes beyond rules enforceable through the court of law.

Croatian legislation provides the Chamber with institutionalized channels of access to political decision making to facilitate the representation of economic interests. The CCE's participation in the workings of government institutions, including the ministries and the cabinet, is organized on either a permanent basis or upon invitation to the working sessions and meetings.

The Chamber prepares mandatory position statements for parliamentary committees on economic, budgetary, financial, labor, and social policy issues (CCE, 2006). The Chamber also routinely provides economic information to the parliamentary committees and individual legislators. Written reports, position statements, proposals, and other materials issued by the Chamber are known as *joint proposals of the business community*. The Chamber also commissions studies to the professional research institutions. The official status of the Chamber as the representative body of the Croatian business community allows for its direct participation in international negotiations, including negotiation on Croatia's accession to the WTO, signing of the Stabilization and Accession Agreement (SAA) with the EU, free trade negotiations with Central European Free Trade Association (CEFTA), joining CEFTA and EFTA (European Free Trade Agreement), and bilateral economic talks.

In its functions, the central office of the Chamber traditionally concentrates on foreign economic relations. It organizes international fairs and exhibitions and closely cooperates with foreign organizations of business in facilitating information sharing and collaboration between Croatian firms and foreign partners. The Chamber functions as a designated agency to enforce the implementation of the Agreement on Trade in Textiles between Croatia and the EU. The CCE also represents Croatia in several regional agreements including the Stability Pact and Central European, Adriatic-Ionian, and Southeast European Co-operative (SECI) initiatives. The CCE has assumed regulating and certifying functions in various fields of international commerce and transportation.

For instance, in 2004, special government regulations authorized the Chamber to issue and validate import/export documentation, including ATA Carnets (documents facilitating customs procedures for temporary import/export such as commercial samples, fair and show

exhibits, etc.), certificates of origin for goods, FORM A—origin of goods for GSP exemptions, third country origin, end use and cross-border certificates, certificates of non-Croatian origin, and export permits. A special agreement with the Ministry of the Sea, Tourism, Transport, and Development (Under the Road Transport Act NN 178/04) authorized the Chamber to issue international goods transport permits, coordinate passenger transportation schedules, harmonize bus price schedules, and participate in occupational certificate examinations.

In the sphere of domestic market regulation in 1997, the Chamber enacted voluntary quality control and domestic producer support projects that visually marked Croatian products with “Croatian Quality” and “Croatian Creation” labels. The quality labels designate products that meet the highest standards in ingredient, design, ergonomic, environmental, and recycling-friendly criteria. This creates reliable information, reduces transaction costs, and promotes producer reputation building. The Chamber tries to ensure impartial and professional evaluation standards. The “Croatian Creation” label is awarded to the original Croatian products that reflect Croatian traditions and inventions in addition to meeting the quality criteria described above.

Chamber’s representative and regulating functions were expected to generate close integration of business community into political processes and a gradual development of beneficial self-regulation. However, from the moment of the CCE’s formation, businesses in different sectors started voicing dissatisfaction with the compulsory nature of the system and the inability of the Chamber to adequately reflect the demands and protect the interests of diverse economic sectors. The movement has produced the spontaneous self-organization of rival business associations. A number of sector-specific (the Association of Travel Agencies, the Association of Croatian Exporters) and cross-sector (the Croatian Employer Association)

organizations emerged to represent businesses who felt their interests and visions were ignored by the CCE.

The CCE was criticized for giving little recognition—and virtually no representation—to the small business sector and particular industries. Reacting to the criticism that the internal structure of the CCE was insensitive to the diversity of business interests, in 1994, the Chamber convened founding meetings in order to establish professional associations and specialized groups that would become sub-divisions of the CCE. Forty professional associations and 87 specialized groups were established as semi-autonomous organizations operating within the CCE structure. Membership in such groups is voluntary and members are expected to pay additional fees for joining these groups. Sector-specific associations are governed by their own charters that can be amended by the members, although the law provided for a compulsory membership of such sectoral groups in the CCE. The 1994 reform attempted to accommodate industries' demands for specialized representation within the compulsory membership system.

In addition to the central office in the capital city, the CCE has 20 county chambers. The counties' chambers heavily rely on activities of sectoral and professional associations that concentrate on the particular aspects of business, depending on the sector composition of the county economies. Many activities of the CCE including the development of business propositions, provision of information about local conditions, monitoring the effects of government policies, and others are conducted through such associations. Trade associations in cooperation with the central CCE office organize sectoral fairs, monitor economic trends within sectors, develop specific regulatory propositions, and directly participate in consultative bodies of various government agencies.

In addition to the elaborate organizational structure of the CCE, special legislation established representative association for firms with cooperative forms of property (mainly in agriculture, but also housing cooperatives, artisans, and credit unions)—the Croatian Association of Cooperatives, and the small business sector—the Croatian Chamber of Trades and Crafts. Membership in these groups substitutes for membership in the CCE and is open to firms established under the Law on Cooperatives and the Trade Law. These organizations have a separate staff, budget, and organizational structure. The latter, however, in many ways parallels the organizational structure of the CCE.

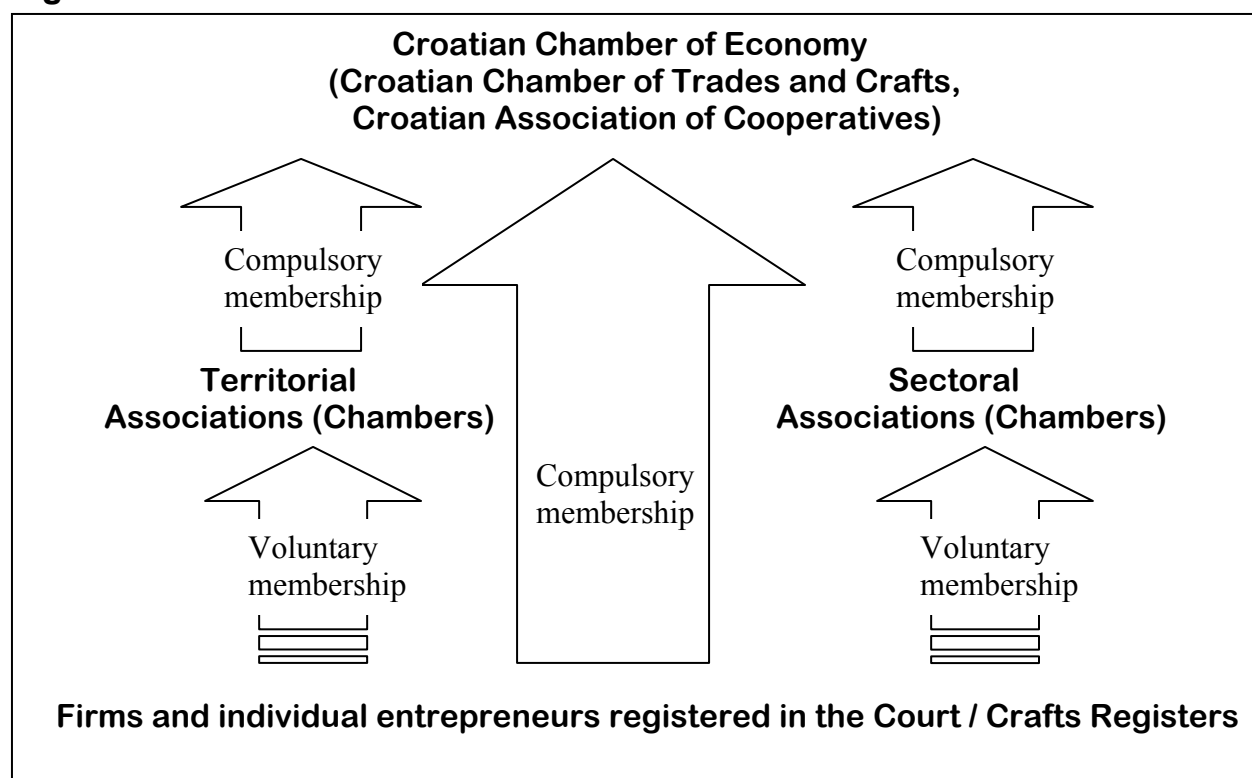
The 1993 Trade Law (*Narodne novine* 77, 1993) that outlined regulatory principles of entrepreneurial activities of physical entities—in various spheres of production, services, and commerce also created the Croatian Chamber of Trades and Crafts¹⁰ as a compulsory organization of craftsmen who become members at the time of entering in the county's crafts registries. The law does not prescribe creation of local and sector-specific associations of craftsmen, but restricts the number of such associations, whenever these emerge, to one per geographical location and sphere of commercial activity. The law prescribes internal structure, governance mechanisms, and broadly outlines the spheres of activities of the Chambers. The Ministry of Craft, Small and Medium Entrepreneurship ensures conformity of the Chamber of Trades and Crafts statute with the Law, and the Croatian Chamber of Crafts guarantees

¹⁰ Similarly to the CCE, Croatian Chamber of Trades and Crafts has a long history dating back to 1879 when craftsmen and merchants of Zagreb organized a crafts convention. The first union of Croatian craftsmen was organized in 1906 struggle for the formal recognition on the part of the state authorities. The Union has strengthened its base in the interwar period by expanding its activities to the founding of a crafts museum, a local craft schools, and philanthropic and credit organizations. The establishment of the socialist economy resulted in the banning of the operations of the Crafts Union and a nationalization of its property. Unlike in the Soviet-style economic system though, private, small-scope economic activity was not completely outlawed in Yugoslavia, but the majority of the artisan production from late 1940s was transferred to the social (primarily cooperative) sector. Occupational Chambers, giving the upper hand to the state and cooperative enterprises, were established and existed until 1962 when they were replaced by Chambers of Economy. In 1980, the craftsmen organization was revived in the form of the Union of Craftsmen Organizations. In 1992, this organization has inherited the former property of the first Croatian Crafts Union that was nationalized in 1947 (<http://www.hok.hr/hok/>).

conformity of local and sectoral chambers with the law. Following the adoption of the law, in 1994, the Chamber convened its re-constituting assembly and has taken over the property of the socialist-era trade chambers in Zagreb and provincial cities.

The Croatian Association of Cooperatives (CAC) was established in 1995, based on the provisions of the Law on Cooperatives as a compulsory organization of Croatian cooperatives and sectoral and territorial cooperative associations. All cooperatives registered in the Court Register automatically become Association members. The CAC has regional offices that operate as organizational sub-divisions of the association, and 12 regional and sectoral associations such as the Croatian Union of Housing Cooperatives, the Cooperative Union of Slavonia, the Croatian Association of Credit Cooperatives, and others (Interview, Internal publications). Figure 2. below illustrates such dual organizational structure based on both compulsory and voluntary membership. In fact, such structure is common to the three official peak associations established by the Croatian government.

Figure 2.



The top-down creation of the compulsory organizational structure has been criticized by Croatian businessmen. The system was seen as unwieldy, paying little attention to the actual needs and concerns of business community, and as a direct extension of state institutions, allowing little room for business initiatives for challenging the official state position. Those dissatisfied with or suspicious of the representative capabilities of the official peak organizations have developed alternative organizational forms that, over time, became formidable rivals to the top-down Chambers system. Starting in the early 1990s, a number of voluntary organizations have emerged to occupy different sectoral and issue specific niches. Some of these associations found it hard to compete with the compulsory chamber structure because business participation in voluntary organizations would double businesses' annual contributions. Another difficulty for the survival of independent voluntary associations was presented by the 1994 organizational reform within the Chamber of Economy with the legislative prescription for the voluntary

sectoral groups to join the Chamber. In effect, voluntary associations formed from the bottom up through the initiative of business community have become absorbed into the official Chamber system.

Nevertheless, there have been remarkable success stories of the formation and independent development of sectoral and cross-sector voluntary groups. For example, as early as 1992, the newly established travel agencies have organized a trade association rival to the CCE. Throughout the 1990s, the Croatian Association of Travel Agencies grew and expanded its activities to include a travel database, voluntary quality standard enforcement, code of business ethics mandatory to its members, customer information portal, and a range of research and lobbying initiatives. An interview with the executive director of the Croatian Association of Travel Agencies made me believe that the association attracts its members because its activities create a common informational space and a level playing field, guarding against unfair competition frequently emerging in this still-developing market (Interview).

Perhaps one of the most significant players in the Croatian interest representation system that was established on the voluntary basis is the Croatian Employers' Association (CEA). The CEA was founded by the initiative of a German investor joined by prominent Croatian businessmen in 1993 as a voluntary, non-profit, and independent employers' association. A prominent Croatian businessman, I. Todoric, served as the first president and, through his networking, attracted a large number of entrepreneurs. In 2006, the CEA's membership surpassed 5 000 enterprises from all parts of the country that employed over 400,000 workers (<http://www.hup.hr>).

The CEA is based on voluntary membership and democratic internal governance. While its statute declares the representation of members' interest and protection of private property as

the central goals, the CEA's major role is largely seen as participation in tripartite negotiations. Organized as a confederation of individual enterprises and 23 voluntary sectoral associations¹¹, the CEA has been recognized by the government and trade unions as the only representative employers' organization in the tripartite negotiations and agreements. With the establishment of the National Economic and Social Council in 1994, the CEA became a legally authorized negotiator on behalf of employers in collective bargaining and the signing of collective agreements.

In addition to its participation in collective bargaining—primarily in the field of labor and social legislation—the CEA is an active player in the sphere of industrial relations by conducting studies, making proposals, and organizing conventions on the issues of private property protection, promotion of economic development, and regulation of the market economy. Since the EU accession negotiations opened up a possibility for Croatian integration in the EU, the CEA has prioritized issues relating to harmonization of Croatian industrial legislation with EU practices and creation of a favorable investment climate. In addition to lobbying, information provision (through its website, *Eukonomist* magazine, and specialized reports), and expert studies, the CEA maintains a dispute mediation center and a Center for EU Pre-Accession Programs. In 2004, the CEA launched a specialized “benchmarking” project that focuses on the development of best-practice recommendations in the sphere of corporate governance.

The system of businesses representation that developed in Croatia after its independence from Yugoslavia contains corporatist and pluralist elements. Although the legislation has created a solid basis for the corporatist-style institutions, spontaneous development and adaptations to the business demands led to de-facto organizational pluralism with a strong voluntary element.

¹¹ Upon joining the CEA, a new member may join a sectoral association in his respective industry. The sectoral associations have independent charters, specialized functions, and different membership fees. Membership is voluntary.

Early on in transition, the neo-corporatist institutions were established because of the promise of greater participation, cohesion, and representativeness that would translate into a stronger position of the business community. The neo-corporatist patterns of organization, however, did not fulfill early expectations for creating better mechanisms of defending business interests and regulating intra-industry relations. Responding to the increasing self-organization on the part of the business community and criticism of the inflexible compulsory arrangements, the state and the CCE have taken steps towards greater organizational pluralism and also incorporated the elements of voluntarism. Still, this did not prevent the development of independent voluntary associations. The failure of the neo-corporatist model has ultimately manifested itself in the development of alternative voluntary associations that took on the roles forsaken or underperformed by the official peak organizations. Self-organization of rival associations and the creation of an official peak association to represent small businesses and cooperatives de-facto has annulled the CCE monopoly on business representation.

5. Conclusion

Summing up, the paper describes interesting patterns in the development of business representation across post-communist Eastern Europe. While initially, the legislative frameworks adopted after the collapse of communism created different institutional foundations for business representation, subsequent developments brought about an increasing organizational pluralism in the corporatist-style institutional systems. As a result, the post-communist business interest representation systems have exhibited converging patterns a decade after transition. After the abandonment of compulsory chamber systems in two out of eight corporatist-style regimes, coupled with the growing number of independent voluntary groups in others, it became apparent that organizational pluralism and voluntarism are becoming the points of convergence.

This paper attempted to explain the cause of these developments by the underlying calculus of voluntary group formation which has to take place in the corporatist system for pluralism to take root. By modeling the strategic interaction between post-communist firms, business associations, and state bureaucracy, this paper arrived at the conclusion that despite certain advantages associated with the prior solution of the collective action problem, compulsory associations have fewer incentives to satisfy business demands. This opens up opportunities for the development of voluntary groups. Empirical developments and theoretical arguments presented in this paper are relevant to a number of topics specific to the post-communist and cross-regional comparative studies.

Interestingly, one can detect parallels between developments in the post-communist corporatist-style systems of interest representation and business representation in the developed capitalist world. The empirical criticism of West European “democratic corporatism” has led some scholars to notice that monopolization of interest representation by centralized peak associations no longer characterizes many long-term corporatist systems. Scholars have pointed to the crumbling of democratic corporatism under economic liberalization and globalization pressures (Lash & Urry, 1987). Such apparent metamorphosis of democratic corporatism has led some scholars to the notion of “coordinated economies” as a conceptual alternative to corporatism (Iversen & Pontusson, 2000; Soskice, 1990). Corporatism has been seen as increasingly diverse institutional and functional arrangements, varying greatly across advanced industrialized countries (Siaroff, 1999) and developing economies (Lavdas, 2005). The development of many elements of pluralism within the corporatist-style systems in Eastern Europe might be a part of a more universal phenomenon. The proposed model of organization, therefore, might have a more universal application.

Cross-regional parallels in the systems of representation go beyond Western Europe. Observing the evolution of interest group organizations in the United States, Heinz and others (1993) have pointed to the declining role of large umbrella groups representing economic interests that used to be the central lobbying actors in the US. Instead, a profound fragmentation has been pointed out. Explaining such changes, the authors argued that “peak associations cannot always satisfy the policy preferences of their diverse constituencies. Larger associations tend to take positions that minimize internal conflict, thus encouraging specialized interests to develop independent strategies” (Heinz et al., 1993: 375-76). Such an argument resonates with the East European experience showing that even when peak associations are imposed through legislation, economic interests would find alternative channels of expression if a large encompassing group fails to respond to their specific demands.

Perhaps the most far-reaching implication of the presented analysis concerns the issue of institutional design. The evolution of organizational forms of business representation in Eastern Europe calls into question theories emphasizing the creation of the “right” institutions through deliberate political engineering. The erosion of business representation systems based on compulsory membership and centralized hierarchical organization, in fact, reinforces the notion of the local knowledge and experimentation as the driving forces behind social change (Stark, 1996). Spontaneity of the developing pattern of governance in Eastern Europe is yet another evidence of the failure of the “blueprint” approach to transition (Grabher & Stark, 1997).

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