

**Government of the Russian Federation**

**National Research University  
"Higher School of Economics"**



The Department of Public Policy

## **MASTER THESIS**

### **Extended Abstract**

The Role of Big Business in the Formation of Public Policy Agenda in Sparsely  
Populated Regions of Russia

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The modern world is a huge net of institutions, which are constantly becoming more and more interconnected. Nowadays one cannot successfully act without taking into account the opinion and interests of others. The system of global international relations becomes more complex due to the appearance of new kinds of global actors – large corporations (transnational companies), non-governmental organizations, think tanks, mass media, which sometimes are in fact as powerful as the governments of the countries they represent. The object of our research is big business and its relations with state and other stakeholders. To understand the public policy processes it is necessary to study all the actors, even if they are not yet appreciable enough.

The **relevance** of the thesis topic is due to the growing importance of political and economic processes on sparsely populated territories of Russia. It is obvious that the intensive development of Northern and Eastern parts of the country has already become not just desirable but a necessary condition for the stable growth of the Russian Federation. Eastern border regions are especially important in connection with nowadays-global economic and geopolitical trends in Asian-Pacific region. The scrutiny of Northern territories is as important as the examination of Eastern regions due to the significance of the Northern Sea Route in the existing international climate. Business and State in Russia are interdependent. At the same time, it is not clear how and to what extent big business influences the formation of public policy agenda. Thus, the **research problem** is that big business stakeholders' impact on the formation of public policy agenda on sparsely populated territories in the economic and post-crisis periods is unclear.

The **goal of this research** is to evaluate the impact of big business on the formation of public policy agenda of sparsely populated regions of Russia, discerning relevant mechanisms of political influence.

**Hypothesis 1:** *big business and state bodies are becoming a network.*

**Hypothesis 2:** *big corporations have a direct impact on the development of public policy agenda and different forms of involvement in the political process promote business interests.*

**Hypothesis 3:** *internal socially responsible activity of the corporation (namely, employees' support, relations with trade unions, corporate culture formation) influences its external relations (state-business, relations with local government and different NGOs).*

We study the capacity of big business to influence the agenda of strategic development policy and aim at finding the answers on the following questions:

- How can the impact of big business on the policy agenda in sparsely populated regions in general be evaluated?
- How do big business interests affect public policy agenda in this sphere?
- Does the internal strategy of the corporation influence its relations with external actors?
- What should be done to make the interests of the state, big business and public in the process of regional development meet?

The following **tasks** are set:

1. to overview some theoretical aspects of big business operation, its cooperation with local government, strategic development, concepts of corporate social responsibility and corporate citizenship;
2. to define big corporations' interests in examined regions;
3. to define how their interests are reflected in the public sphere and public policy agenda;
4. to define patterns and mechanisms of the conciliation of big business and regional authorities' interests and common agenda construction;
5. to define the role of big business in the development of sparsely populated regions and monocities.
6. to evaluate development of corporate citizenship in the sparsely populated regions and monocities;
7. to recommend an adapted policy of state-business interaction.

**Novelty of the work** is defined by the fact that despite sufficient amount of related literature, the literature on modern period of state-business relations in regions (economic and post-crisis time), especially literature focused on sparsely populated territories, is scarce. Findings in networks formation between local government and city-forming enterprises in monocities contribute to Russian studies of state-business relations and corporate governance in sparsely populated regions.

**Theoretical framework** of Master thesis is *the 'new' institutional approach* with the specified strain of *network institutionalism*. Within this framework it is possible to show how both regularized and informal patterns of interaction between groups and individuals and groups shape political behavior (in our case – how interests of big business shape public policy agenda in sparsely populated regions). Research is focused not on the organizations but on the rules they

follow. It is important to define who provides the ‘rules of the game’ and who the player of that game is (Marsh & Stoker, 2010).

Within the institutional approach, the institution is seen as a set of the rules existing ‘within’, ‘between’, ‘under, over and around’ organizations (Fox & Miller, 1995 - Cit. Marsh & Stoker, 2010). In this research, we perceive institutions as dynamic systems. Accepting network perspectives it is assumed that ‘institutional stability is dependent upon a continuing process of consensus and coalition building among actors, within a continually changing environment’ (Marsh & Stoker, 2010: 69). While traditional institutionalists tend to analyze and compare systems as a whole, we focus upon the cabinet decision-making, arrangements for budgeting, policy-making and strategic planning, or business-government relations. Thus, institutions are ‘differentiated’ regarding the conception that they do not ‘necessarily fit together to form a whole, or represent functionally desirable solutions’ (Marsh and Stoker, 2010: 70). During functioning of such ‘differentiated’ institutions certain courses of action can be privileged over others, different actors can be included and excluded which shows the dynamic of institutions and their diversity. Mechanisms of interaction of political with non-political (e.g. business) institutions at the regional and local levels in Russia are various. It fits in an organizational theory perspective. New institutionalism is a multidisciplinary enterprise covering the fields of political science, economics, sociology, and organizational theory. It is not a consistent framework of analysis, but rather a set of related analytical ideas.

Another approach used in this paper is an *actor-oriented approach*. The use of actor-oriented tools can help find changes in perceptions of actors and their development. Actors are encouraged to engage with the social and political context of their activities in a productive way. Actor-oriented tools ‘provide practical ways to monitor, document, and assess and thus legitimise crucial institutional strengthening activities’ (Biggs & Matsuert, 2004).

The research is mainly qualitative but a quantitative method is also used. The design of quantitative part of research is casual, which consists in conducting relational experiments. Qualitatively the thesis is designed as a descriptive and in some respect, it is critical.

### **Qualitative methods:**

*Case studies* help to consider cases and reveal information in the concrete situations of state-business interaction. The method is implemented in Chapter II ‘Spatial strategies and core interests of big business: sparsely populated regions specifics’ and is a main method in Chapter III ‘Lukoil as a regional public policy actor’.

*Interviews with citizens* living in studied regions help to better understand relations between all stakeholders. Opinion of citizens is one of the most important tools in setting of public policy agenda.

*Interviews with experts* allow collecting unique materials on business participation in development of sparsely populated territories.

*Cross-regional comparison*, which is to help with analysis of the situation in examined regions and their comparison. This method is used in Chapter II;

*Stakeholder analysis* is to find out relevant connections and sources on the Internet;

### **Quantitative method:**

*Regression analysis* – linear regression by a method of the least squares to test *Hypothesis 3* and define the level of internal CSR influence on external CSR and corporations' relations with the stakeholders.

**Primary sources of information:** normative documents, strategic development documents, big corporations public integrated reports, internal documents of the Government of the Russian Federation, materials of expert interviews, materials of federal, regional and local Mass Media, materials of official web-sites of regional and local administrations and communities, materials of regional and corporate archives.

**Secondary data source:** Russian Federation Federal State Statistics Service.

**Geographical scope** covers Eastern and Northern territories of Russia. For the comparative analysis ten Russian regions (eleven including sub-regions) were selected. Criteria of sampling are presented in Chapter II 'Spatial Strategies and Core Interests of Big Business: Sparsely Populated Regions Specifics'. Research spans the **periods** of the economic crisis and post-crisis time (2008-2014).

The paper **contains** introduction, three chapters divided into paragraphs, conclusions, bibliography and appendices.

**Chapter I 'Business-Government Relations In Regions, Planning And Corporate Citizenship: A Theoretical Framework'** discusses different theoretical approaches and definitions of studied concepts.

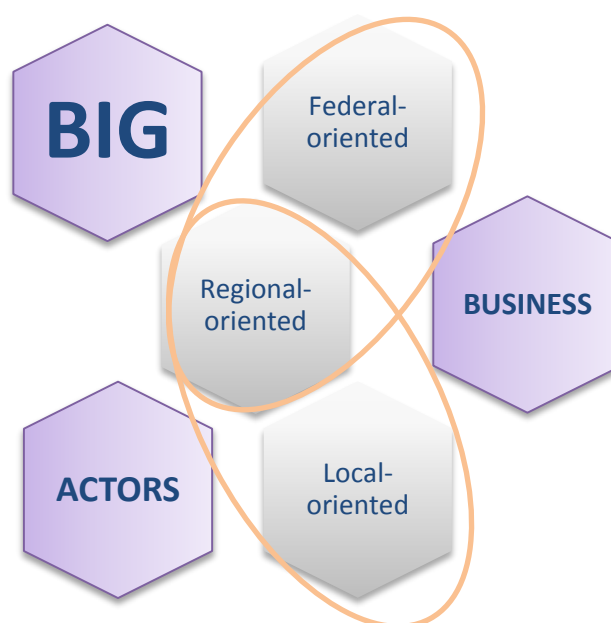
*The public policy agenda* examined in the present research consists of trilateral interconnections between state, business and civil society. In the ideal form, all three actors are

full-fledged players who interact on equal terms in order to address the most important for society problems and seek ways of their solution within the common agenda. In Russia, this interaction is still far from equal. State-Business Relation along with Corporate Governance, Corporate Social Responsibility and Sustainable Development are promissory issues of public policy analysis.

In this Chapter we address some issues on Public Policy Agenda Setting, Business-State relations, Corporate Social Responsibility and Corporate Governance. We emphasize that Agenda Setting and Public Policy is about how political participants seek to influence the policy agenda. The public policy agenda consists of trilateral interconnections between state, business and civil society, where civil society is the weakest actor.

We define six groups of Big Business Actors grounding on their orientation:

### The Actors of Big Business



1. ***Purely Federal-oriented.*** Counting on the support of federal authorities, they in some respect ignore regional and local cooperation, not building ties and mending relations with low-level stakeholders.

2. ***Federal and Regional-oriented.*** This kind of companies build relations with Federal and Regional governmental bodies but ignore local subjects of the territories of their operation.

3. *Purely Regional-oriented.* Some companies (usually holdings in Northern and Far Eastern regions) have good connections on the regional level due to their presence that is restricted by the borders of the region. They do not have to build relations with Federal authorities because of the regional remoteness. The regional authorities undertake interactions with Federal government – they represent companies’ interests by themselves.

4. *Regional and Local-oriented.* The circumstances are the same with Purely Regional-oriented companies. The difference is that Regional and Local-oriented business is more responsible because it takes into account local level.

5. *Purely Local-oriented.* This kind well may be a city-forming enterprise which is very interweaved with government on the municipal level but it has not enough resources to influence regional and Federal levels or it just doesn’t need to.

6. *Federal-Regional-Local oriented.* The most powerful and at the same time responsible kind of a corporation. Commonly it is transnational, but it’s not the rule. It builds relations at all the levels of interaction and cooperate with the majority of stakeholders.

Peregudov & Semenenko (2008: 395) argue that “advancing on the way of providing sustainable development” is obstructed not only by poor corporate mentality and egoistic interests of big business but by other systematic restraints, first, by absence of a sustainable development strategy in political management on the national levels. Interests of corporations and government usually coincide – it is a drive for providing growth in contempt of socioeconomic priorities. We agree with this statement and present research proves it. Federal and Regional authorities generally ignore the possibility of promoting and institutionalizing of sustainable development concepts together with corporate social responsibility and corporate governance promotion.

In Chapter II ‘**Spatial Strategies and Core Interests Of Big Business: Sparsely Populated Regions Specifics**’ sparsely populated territories sampling criteria are given, cross-regional comparison is conducted, basic economic parameters of underpopulated regions and their comparison with the rest of the regions are studied. We list enterprises operating in the regions and give their characteristics. One of the paragraphs is devoted to the monocities scrutiny.

Our sampling methodology is based mainly on regional population density value. A considerable weak point of this methodology is that in Russia despite extremely low population density and big space of waste grounds there are huge cities in almost each region. During Empire and Soviet times, cities often appeared in the places where they would have never

appeared in conditions of market economy (too «cold» places, accommodation without taking the relationship to the resources). Therefore, the question is whether to include urban areas in sparsely populated territories analysis or not. Due to the fact that we study, first of all, big corporations which are usually registered in the cities, rather than local SMB companies that operate in country, it was decided to take into account big cities when comparing regional economies and evaluating the role of big business in public policy processes. Another important issue is the problem of Russian *monocities* and the risks of their dilapidation.

For the research we chose 11 regions (two regions are a part of Tyumen oblast'-KhMAO and Yamalo-Nenetsky Autonomous Okrug). South of Tyumen oblast' is not taken into account barring exceptional necessity for examination. The only one region which extends upper bound of population density in present research is Sakhalin oblast'. Due to its small territory it insignificantly exceeds formal density of population, which is less than five inhabitants per square km, but it is quite fit in managerial and socioeconomic similarity with other regions.

We found that sparsely populated territories with the population density <5 inh. per km<sup>2</sup> in Russia are characterized by following factors:



**Sparsely populated regions. Final sample for present research**

1) *Sociopolitical and managerial* (broad territories with a very specific system of governance, characterized by the importance of informal relations, significant ethnic factor and strong family ties, clash of local government with regional and federal authorities' interests concerning taxation and capital export from regions).



2) *Socioeconomic and ecological* (higher in comparison to rest regions mining, manufacturing activity, pollutant emissions, population's income).

3) *Geopolitical* (Coastal zone, Northern Sea Route, disputed Arctic territory).

In each region, we analyzed single-industry cities and city-forming enterprises. Analysis of 50 monocities and city-forming enterprises has shown that in the majority of the cities local executive and in some cases legislative authorities and primary companies are much interwoven and they form networks, which provide, on the one hand, less transparency, but on the other hand, it increases mutual responsibilities. Economic and social risks exist both for the city and for the company: the company may not refuse their employees, and for the city, the company is a source of taxes and labor payments. At the same time, we acknowledge that corporate social responsibility promotion and its institutionalization are not the priority of Federal and Regional governments. Thus, the process does not hierarchically go from the top, but it actively develops on the local level. Thereby we prove that the main **Hypothesis 1** is true at the local level. City-forming enterprises and local governments form an interwoven network.

Speaking about **Hypothesis 2** we conclude that the big business interests are reflected in the public policy agenda in forms of joint programs and conceptions development (e.g. RSPF and Ministry of Economic Development Conception of public non-financial reports development), in strategies of regional development, in public conferences, round tables and in the concrete investments and infrastructural projects. These forms of involvement are at the same time transparent mechanisms of political influence. Thus, the corporations have a direct impact on the development of public policy agenda on the local level using different tools of political influence (revolving doors, taxation policy, artificial formation of stakeholders, citizens' involvement in decision-making, etc.)

The analysis of companies and municipalities web sites allowed us to evaluate the level of companies' relations development with their stakeholders, first, with local governments. **Hypothesis 3** is proven quantitatively (regression analysis of 39 corporate strategies estimations). The determination of external and internal CSR of the city-forming enterprises is relatively high. Internal socially responsible activity of the corporation influences its external relations but it is still very dependent on the authorities' decisions

**Chapter III 'LUKOIL as a Regional Public Policy Actor: Kogalim Case'** is devoted to case studies of the city of Kogalim located in Khanti-Mansi Autonomous Okrug.

Kogalim city illustrates one of the successful examples of significant role of the big corporation in complex territorial and social development. Local government and the company

form a firm bond. The company and municipal administration cooperate on involving citizens in the process of territorial development. Almost every engineering and infrastructural project is discussed openly during public hearings where any inhabitant can come and pass his opinion, which will be accommodated. The results of Kogalim inhabitants' survey confirm generally positive attitude of citizens towards socially responsible activity of oil company LUKOIL.

According to our big companies' typology, in our opinion, 'LUKOIL' is one of rare examples of the *Federal-Regional-Local oriented* corporation. It tries to develop connections with all the stakeholders, not only with governmental and it develops relations at all the levels. Of course, the company pursues its business egoistical aims. It is obvious that for the Transnational Corporation the public image is of a paramount importance. Nevertheless, going after the profit maximization and doing public good is better than going after it and doing nothing for the society.

In the final analysis, we argue that the business plays a crucial role in the development of the territories due to the fact that municipal resources are not enough and even regional and federal subsidies cannot change the situation much.

We suggest following recommendations.

***To City-forming enterprises:***

- ✓ Be as transparent and open as possible.
- ✓ Interact with at least all local (according to available resources) stakeholders.
- ✓ Artificially form the stakeholders.

***To Local Governments:***

- ✓ Involve all stakeholders and maintain a platform for public discussion of all the projects, plans and problems that citizen stakeholders would face personally.
- ✓ Advocate possible economic diversification in the city.

Only when business stops to perceive its activity just as the possibility of profit maximization and the state turns towards the recognition of society welfare provision as its primary strategic goal will the things change for the better.

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**(Full List See in Master Thesis Bibliography, page 85)**