

OWNERSHIP AND CORPORATE CONTROL STRUCTURES AS VIEWED BY STATISTICS AND SURVEYS

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In summer and autumn of the year 2002, the State University Higher School of Economics (SU HSE) with the assistance of the Goskomstat of the Russian Federation conducted a survey of 523 industrial enterprises in twelve regions of the Federation¹. The sample included enterprises in all industries and of all scales, apart from small businesses. Joint-stock companies made over two thirds of the sample. Out of 345 joint-stock companies, 273 were publicly held corporations and 72 were privately owned.

Along with the survey data, statistical indicators of business activities at these enterprises have also been collected, in particular, the data of structural annual survey of industrial enterprises, which is conducted by the Goskomstat of Russia.

Relying on joint use of the data provided by statistical reports and by surveys, we have a chance to fully explore the issues of ownership and corporate control.

For 243 joint-stock companies from the sample, statistical indicators of ownership structure were obtained, which give composition of their equity capital in details as of the year-end 2001. Since the statistics lack any other indicators of stock ownership, variables to specify the degree of ownership concentration, the structure of corporate control (membership of the boards of directors at the joint-stock companies), and other related items were entered into the questionnaire. The rates of

¹ The survey was taken within the framework of the project "Structural Changes in the Russian Economy" under supervision of Prof. Ye. Yassin. The project was financed by the United States Agency for International Development (USAID) in 2002-2003. S. Avdasheva, V. Golikova, B. Kuznetsov and other participants of the project contributed to the design of the questionnaire.

response to the questions on ownership and corporate control amounted to 60-90% of the respondents.

The survey was to reveal whether the joint-stock companies have seen any changes in the membership of major (influential) owners in recent years (roughly after the crisis of 1998). Almost 61% of the sample appeared to have seen no such changes. Meanwhile, the rest of the enterprises split almost half-to-half in their assessments of the changes as either fundamental or insignificant. So, almost every fifth joint-stock company in the sample had the membership of its major owners radically changed.

Statistical data of the survey of ownership structure show (see Table 1, the first column) that on average, the bulk of equity capital belongs to the enterprise employees; next to them are non-financial commercial organizations, and physical persons from outside of a given joint-stock company are the third. Less than 9% of the capital belongs to authorities, and the portion of financial institutions is next to nothing.

High position of non-financial commercial organizations in the ownership list of equity capital is an indirect illustration of the well-known fact of property integration, which makes the foundation of business groups in the Russian economy. However, the survey took also a direct measurement of company participation in amalgamations and business-groups. Out of 333 joint-stock companies, exactly two thirds happened to believe they were members of no amalgamations, and the rest belonged to one or another amalgamation (about 15% of the joint-stock companies were members of informal groups, and more than 19% belonged to the formal and legally registered ones).

Table 1
Distribution of Chartered Capital Among Shareholders,
as of the end of 2001 (% of a total)

	Total 243 joint-stock co-s	Joint-stock co-s having this type of shareholder*
Federal authorities	3.3	35.9 (22)
Authorities of units of Federation (regions)	3.5	52.9 (16)
Institutions of local government	1.9	36.6 (13)
Commercial organizations (non-financial)	26.9	50.8(129)
Financial institutions	0.8	15.6(12)
Non-profit organizations	4.2	33.1 (31)
Physical persons	59.4	66.2(218)
- Of which, employees of the given enterprise	38.7	49.3(190)
All types of shareholders	100	-
- Of which, foreign physical persons or legal entities	4.6	42.9 (26)

* *In parentheses, the number of joint-stock companies having contribution from this type of shareholder in their chartered capitals.*

Let us look at patterns of equity capital only at those joint-stock companies, which have one or another type of shareholders among their owners (see Table 1, the second column). The number of such joint-stock companies clearly shows how widely this type is present. At the same time, the portion of this or that type in the structure of ownership indirectly indicates the level of capital concentration. For instance, although employees belong to the most numerous type of shareholders, their average stake in capital is less than a half. Average stake in equity capital at the joint-stock companies, which have the relevant types of shareholders, is over 50% among regional authorities, non-financial commercial organizations and physical persons from the outside of enterprises. Non-financial commercial organizations are leading among legal entities in terms of their representation in chartered

capital. Financial institutions have the poorest representation. As for foreign owners, they are present only at one out of nine enterprises in the sample, and they have no more than 43% of equity.

In total, all outsider private owners are present at 191 joint-stock companies, and their combined stake is 67% of equity capital. This is a higher rate of concentration than the insiders have, and it is due to the presence of non-financial commercial organizations and physical persons. Authorities in total are present at 46 joint-stock companies (about 19% of the sample), and they have about 46% of capital there.

The level of concentration of ownership in the industry was high as early as in 1998 when the stake of the largest shareholder approached 37%. By the late 2001, it has increased by almost 6 percentage points (Table 2). Within three years, not only the level of concentration of shareholdings has grown, but the gap has also been narrowed between the mean and median values. The narrowing gap is the sign that the atomized part of equity capital is declining. In total, by the end of 2001 two thirds of the joint-stock companies in our sample had a shareholder with a blocking parcel of shares, and more than 39% of the companies had a shareholder with an obviously controlling stake (more than 50%).

Table 2
Indicators of Ownership Concentration at 220 Joint-Stock Companies in the Sample

	End of 1998		End of 2001.	
	Mean	Media	Mean	Media
State of the largest shareholder, %	36.7	30.0	42.2	39.5
Combined stakes of three major	48.9	47.5	57.6	56.0

The key mechanism of shareholder control over company's matters is reflected in the membership of its Board of directors. A Board of average size consists of less than seven members, and their number has been declining. In 1998, the average number was 7.0 people, but in 2001, only 6.8 people.

In a conventional analysis of structures of ownership and control, a distinction is usually made between insiders (enterprise managers and employees) and outsiders (external owners). However, in recent times representatives of major Russian external owners, who gain membership of top managerial teams, are also included in "new insiders"². Our survey, which is based on such a definition of membership in boards of directors that makes the data compatible with the structure of equity capital, does not allow to precisely distinguish between old and new insiders (however, this is the feature of all known formalized surveys); but it gives a delineation between enterprise employees and other shareholders.

The survey shows (see Table 3) that as well as in 1998, three year later management and employees still dominate over a Board of average size. However, representation of the insiders is gradually declining (mainly at the expense of enterprise managers, if the respondents are to be believed). Representation of other shareholder groups has grown at this expense. In absolute terms, major shareholders - physical persons were leaders in the group of outside owners. They may represent the "new insiders", but we cannot rule out that they were insiders in the past, took part in top management and have retired now.

In relative terms, the fastest growing representation was displayed by authorities, as well as by other directors, including the so-called independent directors. In the case of the latter, the respondents assessments should be treated with caution, because it is unclear whether they have an adequate understanding of the term "independent director".

² The Russian Industry: Institutional Development", ed. by T. Dolgopyatova, Chapter 2. Moscow: SU-HSE, 2002, p.38-39.

Table 3**Aggregate Membership of a Board of Directors**

(% of total members)

	1998	2001
Enterprise employees	59.9	55.8
- Of which, enterprise managers	38.2	35.1
Major shareholders - physical persons	16.5	18.2
Authorities (municipal, regional, federal)	5.2	6.4
Commercial organizations, including financial institutions	12.3	12.9
Non-profit organizations	1.6	1.5
Other, including independent directors	4.5	5.2
Number of respondents	273	289

To get a more vivid comparison of the structures of shareholder ownership and corporate control, let us divide the sample into groups by the type of dominant shareholders. The three main types are insiders (employees, including managers), outside private shareholders (physical persons and legal entities), and authorities at various levels of government (federal, regional and local). Here we are using a definition of a dominant shareholder as of a shareholder type whose stake in equity capital (presence in the Board of directors) is larger than the stake (presence) of any of the two remaining shareholder types. Clearly, if the balance of two out of three types is gained in any joint-stock company, this kind of companies should be excluded from further examination at this stage.

Our calculations show (see Table 4) that while private outside shareholders are dominant in the ownership structure, contrary to it, insiders are dominant in the structure of control. However, affiliation of various shareholders is obviously taken out of consideration.

Table 4**Division of Joint-stock Companies by Type of Dominant Shareholder In Structures of Ownership and Corporate Control**

(% of total number of companies)

Type of dominant shareholder	Equity capital	Board of directors'
Dominant employees	35.8	59.2
Dominant authorities	8.6	5.3
Dominant outside private owners	55.6	28.9
Total sample of joint-stock co-s with available data	243	202

** Since participation of other directors in the boards was disregarded, and there was pressure balance of shareholder groups in a number of companies, the column sum is less than 100%, and the size of the sample has become smaller.*

The obvious change in the distribution of power among shareholders can be demonstrated still more vividly if we switch from formal capital structure to membership in Boards of directors. To do so, let us calculate a coefficient of representation for a shareholder in the Board of directors: the rate of participation of a shareholder in the Board of directors per 1% of equity capital. Our result is that in the comparable range of 202 joint-stock companies, enterprise employees have the highest rate of participation - 1.49. Outside private owners have 0.73, and authorities, only 0.56.

As we have mentioned above, the managers who are insider participants in control may be major shareholders by themselves, or they may be under tough control of the latter. On the one hand, outside owners either enter into managerial functions by themselves or hire top managers "of their own". Any of their attempts to behave opportunistically is strongly cut short and leads to dismissal. On the other hand, the enterprise directors who concentrated capital and control in their hands gradually quit from running their companies and leave supervision of current affairs to their family members or to a hired manager.

Indeed, our data show that change of the original top manager has become more frequent after the 1998 crisis (see Table 5). Meanwhile,

change of a director is typical of the enterprises wherever concentration of ownership was higher, outside shareholders dominated over the ownership structure, and there were shifts in the composition of their major shareholders.

To evaluate the rate of replacement of managers, we used a variable that shows the length of service of a general director at this position. We found that in 40% of the joint-stock companies the directors are "young", the newcomers after the crisis of 1998. In 30% of the companies, the top managers are "old", having survived at this post ever since the start of mass privatization.

In cases when there were no changes in ownership structure, only a third of the directors have been replaced after the crisis. Wherever the changes were sweeping, more than 54% of the directors have been replaced.

The shorter is the service length of a director, the higher is the level of ownership concentration in a joint-stock company. The spread of levels of ownership concentration (measured as the stake of the largest shareholder) between the groups of joint-stock companies with "young" and "old" top manager is about 6 percentage points: from 39 to 45%.

At the insider-dominant enterprises, almost every second director has been working more than 10 year at this post, and only 22% of top managers have been replaced after the crisis. On the contrary, wherever outside shareholders (private and public) are dominant, almost a half of the directors have taken up their posts after the crisis, and less than 19% have survived since the yearly 1990's.

Table 5**Distribution of Joint-Stock Companies by Length of Service of Top Managers at Their Positions**

(% of the number of joint-stock companies in each group)

Groups of joint-stock companies	Length of service of top manager at director's position:			Total (number of responses)
	Not over 4	From 4 to 10	More than 10	
Total sample	40.4	29.6	29.9	100(334)
<i>Groups of joint-stock companies by presence of dominant owner</i>				
Dominant employees	21.8	29.9	48.3	100(87)
Dominant authorities	66.7	23.8	9.5	100(21)
Dominant outside private owners	45.9	33.8	20.3	100 (133)
<i>Groups of joint-stock companies by degree of ownership concentration</i>				
Lack of blocking parcel of shares	34.5	25.0	40.5	100(84)
Blocking parcel of shares is present, but controlling stake in the hands of single shareholder is lacking	39.7	34.9	25.4	100(63)
Controlling stake is in hands of single shareholder	45.1	30.7	24.2	100(91)
<i>Groups of joint-stock companies by changes in structure of owners</i>				
No changes	34.5	33.0	32.5	100(197)
Minor changes	39.6	25.9	43.5	100(58)
Dramatic changes	54.0	27.0	19.0	100(63)

Let us make a conclusion. Statistical data and the empirical survey show that corporate ownership at the majority of the Russian industrial enterprises is of a concentrated type with prevailing insider control. However, the conception of insiders has changed since privatization. At present, this group consists not only of managers turned into legal owners, but also of major outside owners who have come to the enterprises. Legitimate control has turned major owners into "new insiders".