

STUDYING TRANSITION

OWNERSHIP STRUCTURE OF RUSSIAN INDUSTRIAL ENTERPRISES IN 2005

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Once in two years in February, the Russian Economic Barometer conducts a special survey with an aim to evaluate ownership structure of Russian industrial enterprises. The latest survey took place in 2005, and its first results are presented below.

1. Structure of Capital as a Whole

In the 2003 survey, managers (enterprise directors) became the major group of owners for the first time in the whole period of our observation (since 1995). The two years that followed have emphasized this tendency still more. According to the estimates that we have obtained, managers account for 31% of total equity capital on average (hereafter, we refer to estimates obtained without weighing of the data by enterprise size). This is six percentage points higher than two years ago and twice as high as in the 1997 and 1999 surveys (see Table 1).

The second to fourth places are held by groups of owners whose shares in the equity capital are fairly close to each other. They are, first of all, "outside individuals" (20%), "other enterprises" (18%) and "enterprise employees" (16%). In comparison with the results obtained two years ago, changes in shareholdings of the first two groups actually do not go beyond the limits of measurement error. The share of "enterprise employees" looks somewhat different. For a ten-year period we observed gradual decline in the employees' share in enterprise equity capital. The result of the latest survey perfectly fits into this tendency. Nevertheless, in this case we should better be cautious in our conclusions for the reasons to be discussed in Part 2.

The fifth place, as in almost all previous surveys, belongs to the state, whose average share is 7%.

As for other groups of owners, their shareholdings are still low, and the changes remain within the limits of measurement error. These groups are: commercial banks (whose share has never risen beyond 1% within ten years and went still lower in the two latest surveys); foreign investors (0-2%), investment funds (2-4%), holding companies (3-5%).

Table 1
Ownership Structure (%)

Categories of shareholders	1995	1997	1999	2001	2003	2005	2007 forecast *)
Insiders, total	54	52	50	50	50	48	56
1. Managers	11	15	15	19	25	31	36
2. Enterprise employees	43	37	34	28	22	16	15
3. Affiliated firms***)	**)	**)	1	3	3	1	5
Outsiders, total	37	42	42	42	45	45	40
4. Outside individuals	11	15	20	22	21	20	16
5. Other enterprises	16	16	13	12	15	18	15
6. Commercial banks	1	1	1	1	1	0	1
7. Investment funds	4	4	3	3	2	2	0
8. Holding companies	4	4	3	4	5	3	7
9. Foreign investors	1	2	2	0	2	2	2
10. The state	9	7	7	7	4	7	4
Grand total****)	100	100	100	100	100	100	100
Number of enterprises	136	135	156	154	102	101	65

*) *Data of the 2005 survey.*

***) *This heading was not distinguished in the survey.*

****) *Firms created by the respondent enterprise.*

*****) *Column sum may not be equal to 100 due to rounding.*

2. Effects of Changes in Composition of the Sample

As usual, we tried to estimate measurement errors related to renewal of the sample. In 1995-2005, average coefficient of constancy (inertia) in the sample was 41%. In other words, only 41% of survey participants in the *t* year also took part in the previous survey in the year *t-2*.

As follows from the lowest line in Table 2, coefficient of inertia in the 2005 survey was 38%, which was certainly not the worst indicator. Here

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we can also see the data on subgroups of enterprises that took part in our surveys twice in a row. Changes in shareholdings of different groups of owners in equity capital, estimated in this way, are "clean" evaluations in the sense that they are not distorted by the factor of sample renewal. For comparison, we present alongside (in brackets) corresponding estimates for the whole sample.

Table 2
Changes in Ownership Structure of the REB Respondent Enterprises in Identical Sub-samples within Two Year Intervals (In brackets, the same indicators calculated from the whole sample data presented in Table 1), %

Categories of shareholders	1995-97	1997-99	1999-01	2001-03	2003-05	2005-07 forecast
Insiders						
1. Managers ^{*)}	+3,5 (+4)	+2,1 (+1)	+5.1 (+4)	+5.6 (+6)	+4.7 (+6)	+2.4 (+5)
2. Enterprise employees	-7,7 (-6)	-6,5 (-3)	-8.6 (-6)	-4.1 (-6)	+1.0 (-6)	-1.1 (-1)
3. Affiliated firms	- (-)	- (-)	+2.1 (+2)	-0.1 (0)	-0.5 (-2)	+2.6 (+4)
Outsiders						
4. Outside individuals	+2,4 (+4)	+9,1 (+5)	+3.5 (+2)	-2.1 (-1)	-0.1 (-1)	-1.6 (-4)
5. Other enterprises	+4,4 (0)	-1,5 (-3)	-1.4 (-1)	+1.7 (+3)	-5.1 (+3)	-1.8 (-4)
6-9. Financial outsiders ^{**)}	+1,9 (+1)	-2,5 (-2)	+0.9 (-1)	-1.8 (+1)	+2.2 (-2)	+1.9 (+3)
10. The state	-4,5 (-2)	0 (0)	-1.6 (0)	+0.8 (-3)	-2.2 (+3)	-2.4 (-3)
Number of enterprises ^{***)}	46	43	70	62	38	62 ^{****)}
Constancy (inertia) coefficient of the sample (%)	34	28	45	61	38	61

^{*)} In 1995-1997, including "Affiliated firms".

^{**)} This conditional category includes four groups from Table 1: commercial banks, investment funds, holding companies and foreign investors.

^{***)} Size of the common sub-samples of two adjoining surveys.

^{****)} Enterprises that presented data on their actual capital structure together with their forecast.

Formerly, comparisons of SIGNS of respective changes in pairs showed that the tendencies that had been revealed for the whole sample were almost always confirmed with the data of the "clean" sub-

samples. In other words, the signs of changes (in the same group of owners) were either the same or, even if they were not, their disparities were insignificant and never exceeded 2-3 percentage points. In 2005, we have found inconsistent results for the first time, primarily in two lines. The first category is "enterprise employees": their share, as we already mentioned, has declined by 6 points over the whole sample but increased by 1 percentage point in the common sub-sample (in sum, disparity between the two estimates is 7 percentage points). The second category is "other enterprises": here the relevant changes were +3 and -5 (absolute disparity is 8 percentage points). The results obtained for the state and financial outsiders are less pronounced, but also inconsistent. Understandably, the uncertainty that comes into sight is mostly related to the relatively small size of the sample. On the other hand, its size was never large, but this is the first time for uncertainty to appear in the results. This fact per se may be an evidence that the change of all former trends has really occurred in the course of redistribution of property between main groups of shareholders in 2003-2005. But for only one of them: as well as in all former cases, we can with full confidence conclude that the share of managers in equity capital is still rising, and even at a no slower rate.

3. Intensity of Redistribution

We measure intensity of redistribution of ownership among major groups of shareholders with indicator m :

$$m(t) = \frac{1}{2} \sum_i |d_i(t) - d_i(t-2)|, \quad (1)$$

where $d_i(t)$ is the share of group i in the equity capital in the year t , and $d_i(t-2)$ is its share in the year $(t-2)$. Multiplication by $1/2$ is made in order to eliminate double counting (for the sum of positive changes is always equal to the sum of negative changes).

The usage of indicator m for measurement of intensity of redistribution is rather conventional. In the first place, it is not only a reflection of transfer of equities from one group to another in a literal sense of the word, but also a mirror image of all other changes in

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ownership structure, including such as new issues. In the second place, values of m are strongly correlated with the number of groups of shareholders that we have defined (the more categories, the higher is m , all other factors being equal). In this case, we have taken the categories that were used in Table 2. The estimates of m are presented in Table 3 in two versions: one is related to the whole sample, the other, to its stable parts.

Table 3
Intensity m of Redistribution of Capital
(% of total value of equity capital)

	1995-1997	1997-1999	1999-2001	2001-2003	2003-2005	2005-2007 forecast
In the whole sample	8,5	7,0	8,0	10,0	11,5	12,0
In stable sub-samples	12,2	10,9	11,6	8,1	7,9	6,9 ^{*)}

**) In the subgroup of enterprises, which presented data on their actual capital structure together with their forecast.*

As can be seen from these data, in the latest survey again (as it was two years ago) there is a significant discrepancy in terms of dynamics between the two estimates of intensity of property redistribution. When calculated for the whole sample, intensity of inter-group reallocation of ownership rights has increased by 1.5 percentage points to reach a record high level (since 1995-1997). When we confine ourselves to common sub-samples, we may come to a conclusion that intensity of redistribution was virtually the same in the last two years, remaining at the 8%-level. Nevertheless, even this relatively low level testifies to quite significant redistribution. It implies that each year, 4% of equity capital flows from one category of owners to another (consequently, 20% flows in each five years, and a volume which is numerically equal to total enterprise capital will change owners in 25 years).

Let us notice that in 2001, the respondents forecasted that redistribution will make a rapid slowdown from 11.6% to 7% of equity capital (in the common sub-sample). The actual rate of property redistribution in 2001-2003 was about 8%, which was, indeed, very

close to the predicted value. The forecast for 2005 also gave reason to expect a significant slowing of redistribution (approximately down to about 5% in two years). Expectations that redistribution will further slow also remained in the forecast for 2007. However, they are less radical, amounting only to one percentage point.

Intensity of redistribution among groups of owners is still higher when measured on the level of enterprises instead of the group level, because in the latter, opposite shifts in the structure will cancel each other. To make this effect as small as possible, we offer to use the indicator D_i , estimated for each i group of owners:

$$D_i = \frac{\left(\sum_n |d_{in}(t) - d_{in}(t-2)| \right)}{N}, \quad (2)$$

where d_{in} is the share of group i in the capital of enterprise n at moments t and $t-2$, while N is total number of enterprises. Thereafter, in the same way as (1), we can estimate general intensity of redistribution of ownership that will be free from the effect of mutual cancelling of opposite changes in the stakes.

$$M = \frac{1}{2} \sum_i D_i, \quad (3)$$

Table 4 shows how the indicators of D_i and M were changing from one survey to another.

As we see, this tendency towards gradual increase in the intensity of redistribution on the micro-level from 32% to 38% developed in the course of several years. However, this tendency changed abruptly in 2003-2005. For the first time the indicator of gross intensity of redistribution (M) declined to 25%. The respondents anticipate in their forecasts that this tendency will go further down - to 12%. However, this projected estimate - 12% of total equity capital - still looks too high to allow us speak about any pending stabilization in this sphere.

As for particular categories of owners, the latest survey showed that the most rapidly changing stake was the one of "other enterprises": absolute increase in it was about 14% of total equity capital. This is the highest score this group has shown in the entire history of our

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measurements. Moreover, "other enterprises" turned to be the only item to show significant increase in intensity of redistribution in recent years. All other groups displayed either fluctuating or declining intensity.

Table 4
Absolute Changes in Average Stakes Held by Different Types of Owners Per One Enterprise (D_i , % of value of equity capital)

Categories of shareholders	1995-1997	1997-1999	1999-2001	2001-2003	2003-2005	2005-2007 forecast
Insiders						
1. Managers ^{*)}	6.8	10.8	11.3	13.9	7.9	5.5
2. Enterprise employees	15.6	21.2	14.8	15.8	7.6	2.9
3. Affiliated firms	-	-	5.7	4.2	2.6	3.2
Outsiders						
4. Outside individuals	10.2	13.6	13.3	19.2	12.5	3.7
5. Other enterprises	9.8	9.0	12.3	12.4	13.7	3.7
6-9. Financial outsiders ^{**)}	14.2	6.4	7.4	9.2	2.7	1.8
10. The state	7.0	3.2	4.8	1.8	3.3	2.8
Gross intensity of redistribution M (rounded)	32	32	35	38	25	12
Number of enterprises (units) ^{***)}	46	43	70	62	38	62 ^{****)}

^{*)} In 1995-1997, including "Affiliated firms".

^{**)} See note to Table 2.

^{***)} The size of a sub-sample, common to the two adjoining surveys.

^{****)} The number of enterprises, which presented the data on actual structure of their capital together with the forecast of this structure.

4. The Largest Owner

In four latest surveys, our respondents were asked to point the group the largest shareholder in their enterprise belonged to. As follows from the data given in Table 5, in 2005 in most (39%) cases this was one of enterprise managers. The second place in frequency of mentioning belonged to "other enterprises" (22%), and the third, to "outside individuals" (13%).

Looking for some long-established trends, we see a striking tendency towards steady and rapid increase in the share of enterprises which have their manager as the owner of the largest stake in capital: since 1999, the share of such enterprises has increased by 15 percentage points.

Table 5
Distribution of Enterprises by Category of Their Largest Owner (%)

Category of the largest owner	1999	2001	2003	2005
Insiders, total	28	37	44	44
1. Managers	24	31	37	39
2. Enterprise employees	3	3	2	3
3. Affiliated firms	1	3	5	2
Outsiders, total	58	47	49	44
4. Outside individuals	8	13	12	13
5. Other enterprises	27	20	20	22
6-9. Financial outsiders	23	14	17	9
10. The state	14	16	7	12
Total	100	100	100	100
Number of respondent enterprises (units)	96	102	73	59

Along with classifying by category, we also estimated the size of the largest stakes in equity. This picture is, in certain sense, the opposite of the previous one. In four consecutive surveys, those who owned the smallest of these largest stakes were managers (in comparison with the categories presented in Table 6): they had only 44% of equity capital. The largest stake was much larger in size when it belonged to "other enterprises" (53%), to "financial outsiders" (59%) and particularly to the state (62%) and "outside individuals" (64%).

The matter of special attention is that in 1999-2005, average size of largest stakes in all above categories of owners displayed a clear tendency to grow. The only exclusion was perhaps the stake belonging to the state.

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Table 6
Average Size of the Stake by Category of Largest Owner
(share in equity capital, %)

Category of the largest owner	1999	2001	2003	2005
Insiders, total	19	26	32	43
including:				
1. Managers	17	26	31	44
Outsiders, total	35	37	45	58
including:				
4. Outside individuals	30	44	40	64
5. Other enterprises	36	35	45	53
6-9. Financial outsiders	36	34	45	59
10. The state	44	58	44	62
All groups^{*)}	33	34	37	52

**) Including the enterprises where the respondents disclosed the size of the first largest stake in the equity, but found difficulty in pointing at the category of the owner (the usual share of such responses was about 10%).*

5. Composition of the REB Sample in Surveys of Ownership Structures

Finally, let us present composition of the REB sample (to be exact, of the part of the sample that responded to questions about structure of equity capital) in different years, by industry and size (sums by columns may not always be equal to 100% because the numbers are rounded).

Table 7
Breakdown of Enterprises of the REB Sample by Number of Employees (%)

Number of employees	1995	1997	1999	2001	2003	2005
<200	29	34	29	33	31	29
201-500	33	38	30	34	36	39
501-1000	17	17	21	17	19	18
>1001	21	11	20	15	14	14

Table 8
Breakdown of Enterprises by Industry (%)

Industries	1995	1997	1999	2001	2003	2005	1999
	REB sample						Goskomstat
Power	4	2	1	1	-	-	1
Fuels	6	2	3	2	1	1	1
Metals	4	2	6	6	4	7	2
Machinery	29	28	29	26	25	27	36
Chemicals	3	5	7	6	3	3	4
Woodworking, pulp-and-paper	7	8	14	12	13	10	13
Construction materials	13	17	12	11	12	14	6
Light industry	12	13	12	21	17	15	12
Food	17	20	15	15	21	18	14
Other industries	5	3	1	1	2	5	10

Table 9
Distribution of Total Employment by Industry (%)

Industries	1995	1997	1999	2001	2003	2005	1999
	REB sample						Goskomstat
Power	7	3	1	>0	0	0	7
Fuels	12	2	3	1	1	1	6
Metals	8	4	3	11	14	14	9
Machinery	27	36	37	31	43	32	36
Chemicals	6	7	21	16	6	4	6
Woodworking, pulp-and-paper	3	5	13	16	12	14	8
Construction materials	9	17	7	4	7	12	5
Light industry	13	8	7	12	6	11	7
Food	11	10	6	8	8	9	11
Other industries	3	8	1	2	3	3	6