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State ownership and efficiency characteristics

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Abstract

This study examines the influence of state participation in the ownership structure of companies on their financial efficiency using a sample of 114 largest companies in Russia. As an indirect indicator of efficiency, we used a variety of financial indicators: revenue per employee (gross margin), return on equity, profit margin and debt burden. The effects of direct and indirect state ownership are considered separately. Using econometric analysis, we conclude that the dominance of the block of shares owned by the state has a negative effect on the performance characteristics, and its increase is associated with an increase in the debt burden of the companies. According to our criteria, state-owned enterprises (SOEs) perform worse on average than private companies. The mechanism of how changes in the “real sector” affect profitability is examined particularly closely. The study shows that a change in the profitability of private companies is characterized by a significant dependence on the movement of labor productivity characteristics. At the same time, for SOEs, a similar correlation was not revealed. These companies demonstrated no visible relationship between their profitability and performance characteristics. The study shows that increases in the size of direct government ownership lead to lower labor productivity and profitability; the impact of indirect ownership is, seemingly, more complicated.
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1. "Neutral" theory and "pro-privatization" empiricism

Formulating their privatization indifference theorem (neutrality in the form of ownership), Sappington and Stiglitz (1987) built their analysis around the delegation of authority and related aspects of the *principal-agent* problem. Shapiro and Willig (1990) used another method to compare the characteristics of state and private ownership, focusing on comparing information flows during the transition from state to private ownership. In the article dedicated to the 25th anniversary of the paper by Grossman and Hart (1986), which emphasized the incompleteness of signed contracts, Aghion and Holden (2011, pp. 188–189) highlighted the connection between said considerations and the choice between private and public entrepreneurship. Papers on the correlation between sociopolitical factors and the functioning of the public sector form a separate field of research in this area (Shleifer and Vishny, 1994; Acemoglu, 2006).

It should be noted that the implications of transitioning to private economic relations, described in Sappington and Stiglitz's fundamental theorem (and its subsequent interpretations),[1] require a number of usable initial theoretical conditions, which are hardly operational in discussing the applied tasks of the economic policy: a "favorable" state maximizing national well-being; a competitive market environment for producers; no externalities; prompt and full access to information flows (symmetric information); the completeness of all signed contracts; effective institutions; definitive and strong protection of ownership rights by the law and independent courts; no opportunity to derive private profit, etc.

Lower efficiency in the economy may be caused by specific aspects of state ownership, usually perceived as a type of collective ("common") ownership.[2] The mechanisms for monitoring the performance results of state-owned enterprises cannot require that control be exercised by every citizen. This function is usually performed by executive government agencies, thereby forming a principal-agent relationship, which gives rise to even more questions regarding the mechanisms for monitoring the results of control measures taken by these agencies. "Monitoring the monitors" basically degrades into an inefficient bureaucratic pyramid of multi-level administrative control and perfunctory reports.

Another point seems noteworthy. Most papers comparing state and private entrepreneurship usually present the *state or private entrepreneurs* as the alternatives. However, this wording of the question is at least oversimplified. It is always—and particularly at the current stage of economic development—difficult to imagine models of social structures in which the state would simply be "banished" from the economic domain.

In cases recognizing the expediency of transitioning to a broader use of market regulating mechanisms, the state, first of all, becomes the initiator and organizer of the transition, and second, actually controls compliance with the rules of a competitive market "game." In other words, with both private and state entre-

[1] And this is in addition to other judgments related to analyzing Pareto-optimal characteristics of the market economy and, in particular, the general Arrow-Debreu equilibrium.

[2] In his work on the philosophy of law, Hegel (1990, p. 105) noted that certain characteristics of common ownership border on "non-law".

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