

State-owned enterprises in the Russian market: Ownership structure and their role in the economy[☆]

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Abstract

This article analyzes the ownership structure of state-owned companies and their role in the Russian economy. Using a sample of 114 of the largest Russian companies, we estimated direct and indirect state participation as a percentage of shareholdings for direct and indirect federal property during the time period of 2006–2014. We used two methods to estimate the role of state-owned enterprises (SOEs), which allowed us to compare our results with OECD and Rosstat statistics for a broader sample of Russian companies owned by the public sector. This study revealed a decline in SOEs' share in the capitalization of the Russian stock market and a slight increase in their share of total revenues and employment. The results indicated that public SOEs demonstrated significantly higher productivity compared to non-public SOEs and private companies had a distinct advantage in productivity compared with public SOEs. Despite the significant advantages in productivity of private companies over the SOEs, over a 9-year period, we observed that this gap narrowed. This may be due to conditions of high financial volatility and stagnation of the economy that result in certain advantages for SOEs in terms of access to sources of long-term funding and other forms of state support. However, SOEs with indirect state control experienced a rapid growth in revenue and productivity compared to other firms. This may indicate the presence of a specific stock selection mechanism for transferring more effective SOEs from direct state ownership to indirect control as an alternative to privatization.

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1. Introduction: SOE analysis methodology

Evaluating the role of the state as a company owner is one of the starting points in choosing an economic policy. Scholars have a long history of engaging in theoretical discussions regarding the permitted size of the public sector in the economy, the comparative efficiency of public and private property, and, consequently, the expediency of privatization.¹ Most empirical studies on this topic, including the ones conducted in Russia, were carried out following the mass privatization, prior to the 2008–2009 crisis. There is a great need to update methodological approaches and specify the data that are available for state-owned enterprises (SOEs) in Russia.

Rosstat's official data, which do not consider all of the pyramid-like holdings in the mixed sector, indicate that a reduction in the public sector's share of the Russian economy (with the exception of investments and employment) occurred from 2008 to 2015. According to the European Bank for Reconstruction and Development (EBRD), the public sector's share of Russia's GDP increased from 30% in 2005, to 35% in 2010.² These data are informative in terms of trends, but seem grossly understated with respect to Russia's public sector. By early 2008, the degree of concentration of property owned by the state had reached 40%–45% according to the Expert-400 database. In 2009, various experts estimated this figure to be near 50%. According to certain experts' estimates, in 2015, the share (contribution) of state-owned enterprises in the GDP was near 29%–30% and the total contribution of the public sector was near 70% (compared to 35% in 2005).³ The IMF (Hughes et al., 2014) and the Federal Antimonopoly Service (FAS) (2016) provided data that were similar in terms of totals, but differed in methodology.

In this study, we aggregated the results of the 2015–2016 empirical study. First, we analyzed the contribution of major Russian SOEs to the total economic activity and compared them to private businesses in terms of efficiency. From a methodological perspective, we focused on solidifying the term “state-owned enterprise” and analyzed the forms of government control over SOEs as indicated by direct or indirect ownership. In addition, this study evaluated the role of SOEs in the Russian economy, the financial market and changes over time by comparing the size of direct and indirect public ownership and a number of other indicators for private firms and for companies that were directly and indirectly owned by the state.⁴

First, we should specify the subject of research for analyzing SOEs efficiency. It may be unexpected, but academic sources and official documents issued by

¹ Various ideas on this matter have been cited in literature on multiple occasions, including those mentioned in the lengthy discourse about “government failures” (Radygin and Entov, 2012), in theoretical privatization effectiveness models (Polterovich, 2012; Radygin and Entov, 2013), and following numerous empirical studies of the efficiency of private and public goods production from the 1970s to the 1990s (Radygin, 2014).

² EBRD Transition reports 2001–2011. Private companies (as opposed to state-owned) included all companies whose controlling stake belonged to private individuals and legal entities. This indicator is no longer tracked.

³ Estimated data presented at the 2016 Gaidar Forum (Russia and the World: A Look into the Future) on January 14, 2016 (panel discussion “State-owned enterprises: Economic accelerator or brake?” <http://en.gaidarforum.ru>).

⁴ Because the process of comparing efficiency between companies with different forms of ownership is questionable, we intend to present a detailed econometric analysis in a separate article. A comparison of results obtained by analyzing statistics from various company samples and building econometric models will serve as additional evidence of the sustainability of our study's conclusions.

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