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Integrated Business Groups in the Russian Economy

Criteria for Selection of Integrated Business Groups

I. Formal statistical criteria:

- 1. Shipments**
- 2. Book profit**
- 3. Employment**
- 4. Market value**
- 5. Volume of export**

II. Informal criteria:

- 1. Cross ownership of property**
- 2. Interlocking Directorates**
- 3. Property lease agreements**
- 4. “Specific services”**

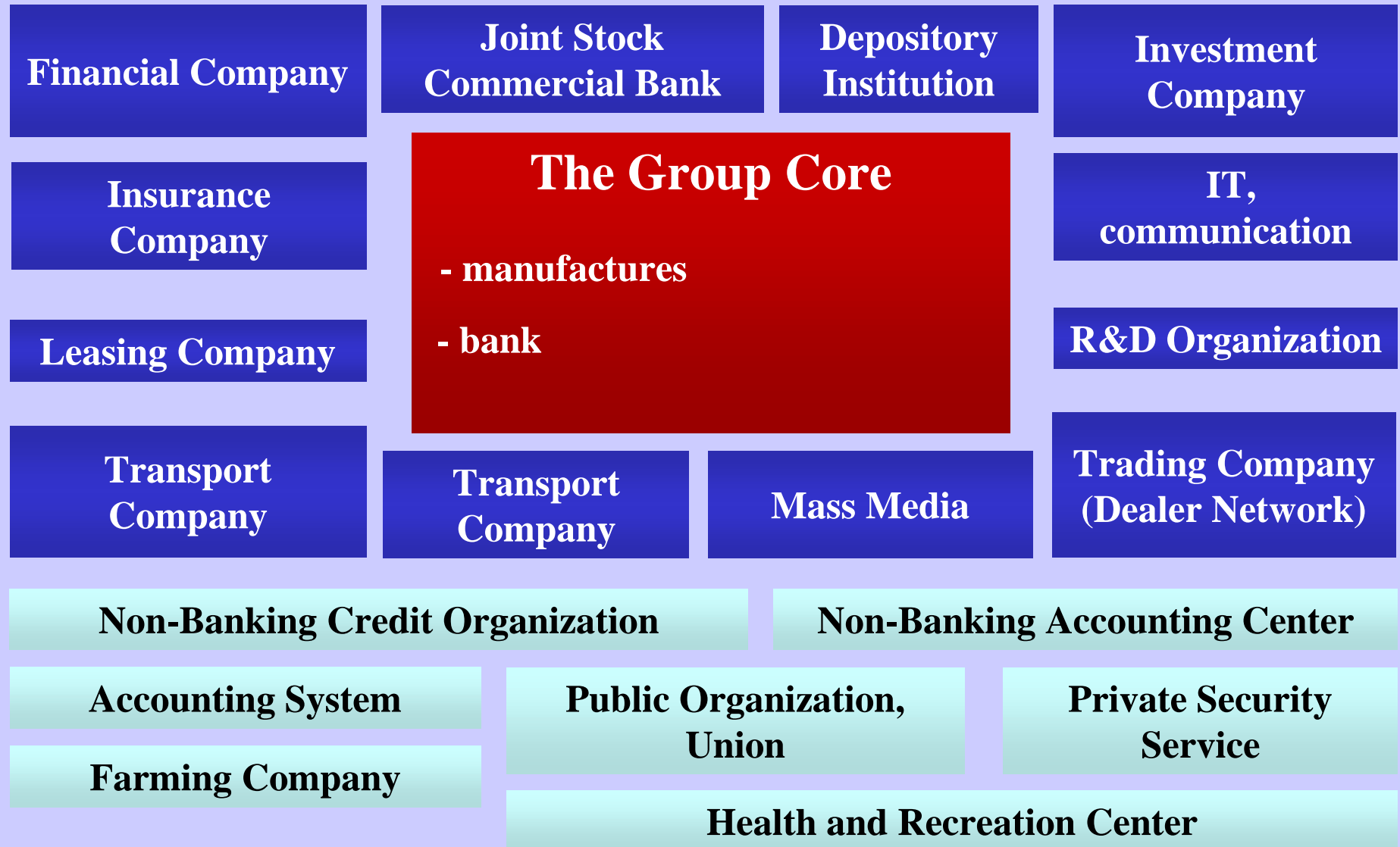
Economic Indices of IBGs, 2000-2001

Integrated Business Groups	Shipments (billion rubles)		Employment (annual average, million)		Volume of Export (US\$ billion)		Investments (billion rubles)	
	2000	2001	2000	2001	2000	2001	2000	2001
LUKoil	406	445	121	102	6	7	22	36
Alfa Group – Renova	174	394	103	143	5	6	11	33
Yukos	252	315	135	106	5	6	13	17
Bazoviy Element – Sibneft	155	274	220	173	4	5	2	3
Interros	184	224	274	199	4	4	12	10
Surgutneftegaz	171	179	79	95	2	2	33	35
Sistema	147	178	144	н/д	н/д	н/д	н/д	21
Severstal	79	85	105	135	1	1	2	3

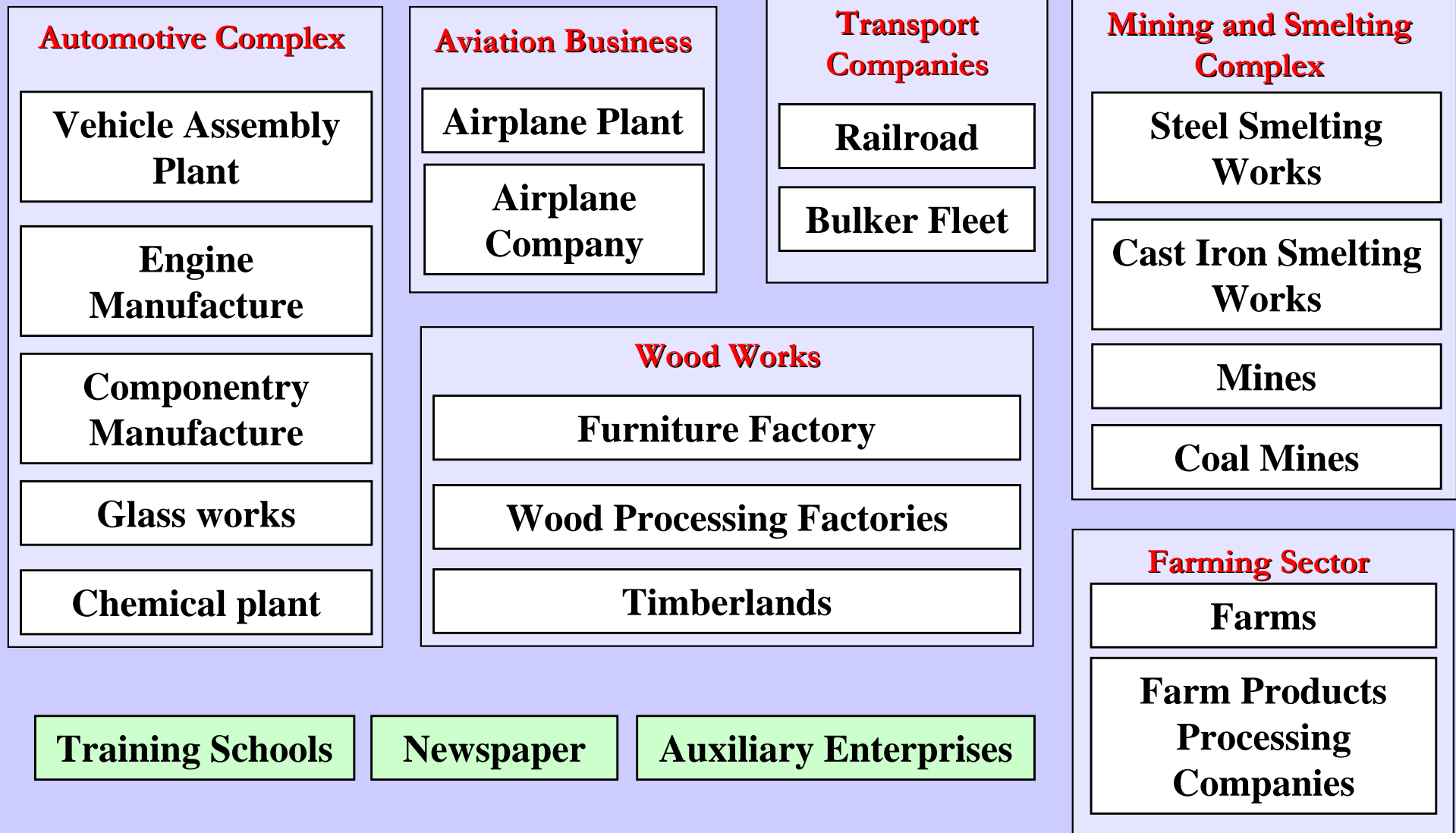
Industry output structure in 2001

	billion of rubles .		%	
	market goods and services	industry	market goods and services	industry
Total output	15301,8	5881,0	100,0	100,0
Natural monopolies	1604	820	10,5%	13,9%
Electricity	510	454	3,3%	7,7%
GAS	475	366	3,1%	6,2%
Railway transport	320		2,1%	
Pipeline transport	299		2,0%	
Integrated Business Groups	2093,9	2093,9	13,7%	35,6%
LUKoil	445,1	445,1	2,9%	7,6%
Alfa group - Renova	393,8	393,8	2,6%	6,7%
Yukos	314,6	314,6	2,1%	5,3%
Bazoviy Element - Sibneft	274,3	274,3	1,8%	4,7%
Interros	223,8	223,8	1,5%	3,8%
Surgutneftegaz	179,3	179,3	1,2%	3,0%
Sistema	178,0	178,0	1,2%	3,0%
Severstal	85,0	85,0	0,6%	1,4%
Others	11604,4	2967,1	75,8%	50,5%

Typology of IBG structural elements

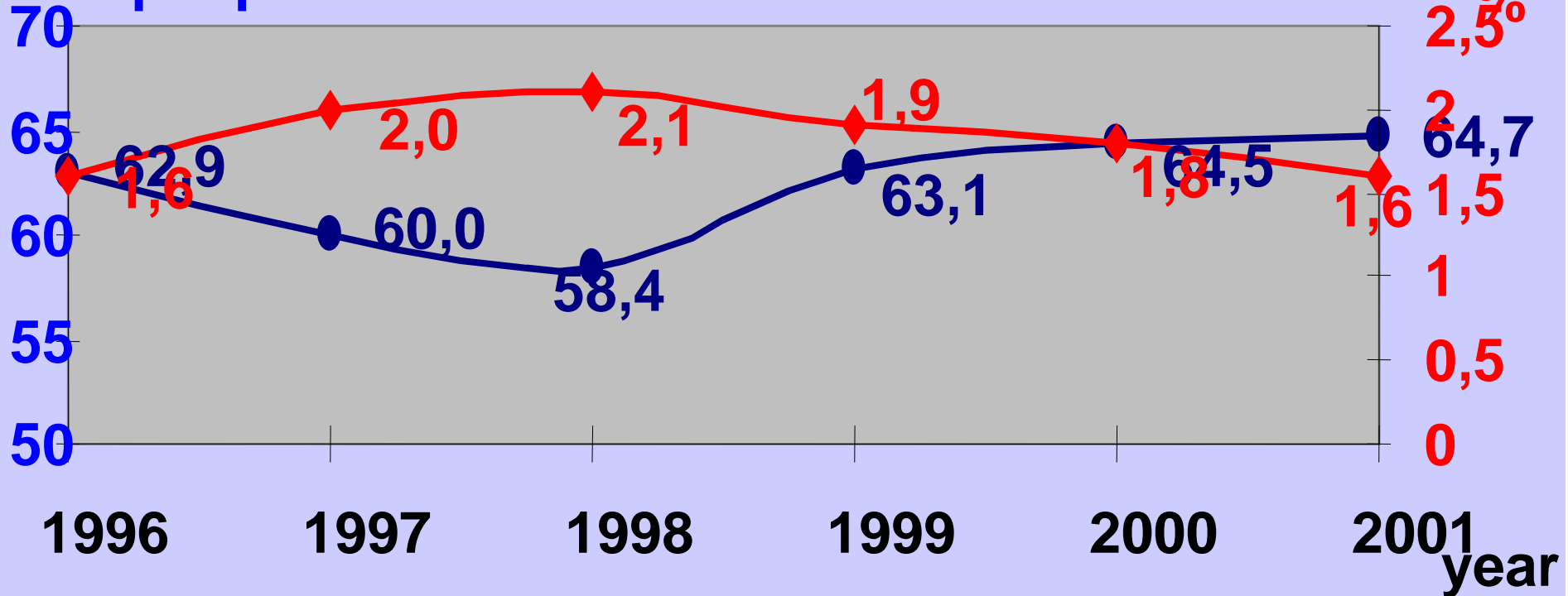


Business Structure of Ford Motor Company Divisions, 1927



Share of IBG Personnel in Total Number of Employees

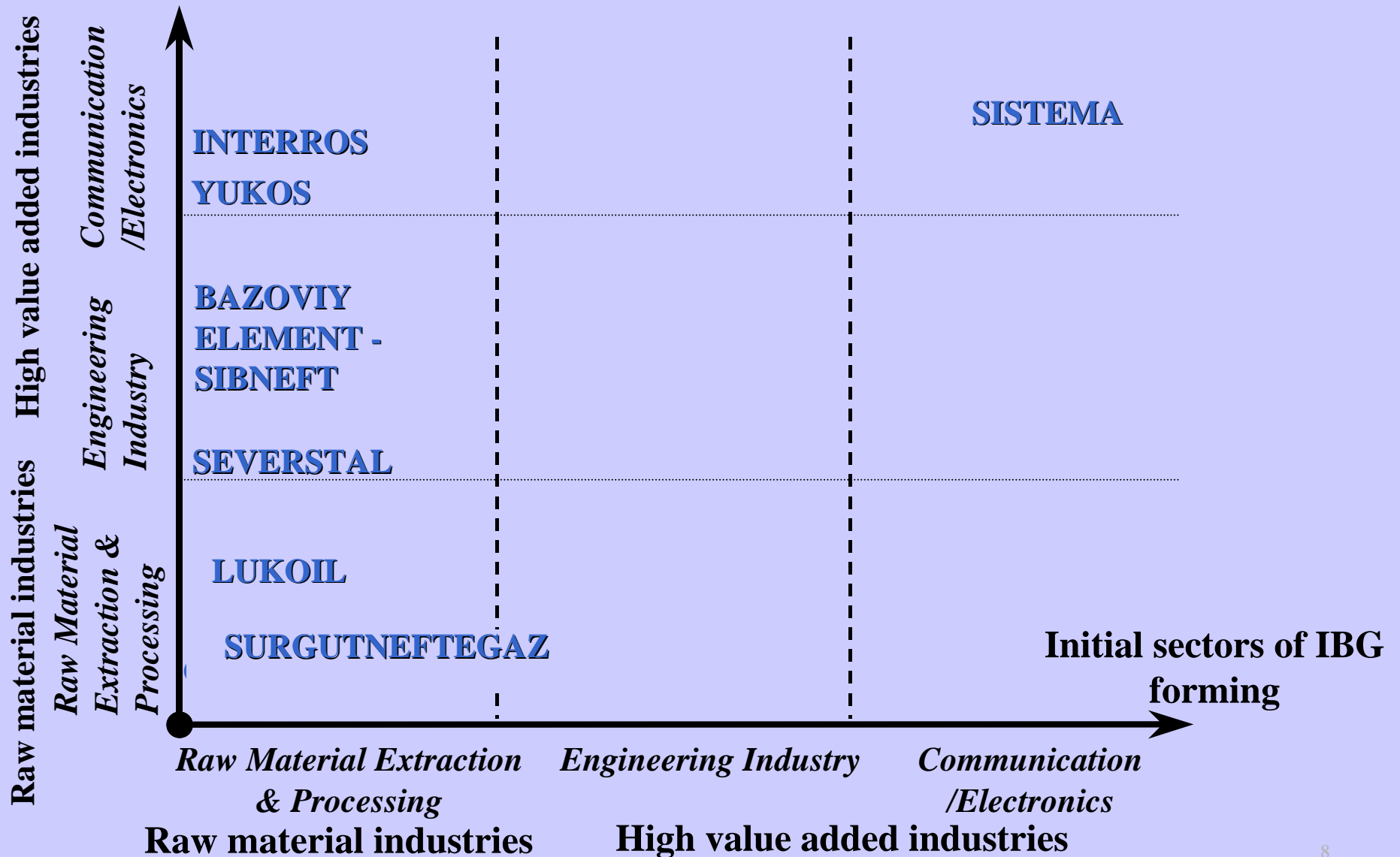
Million people



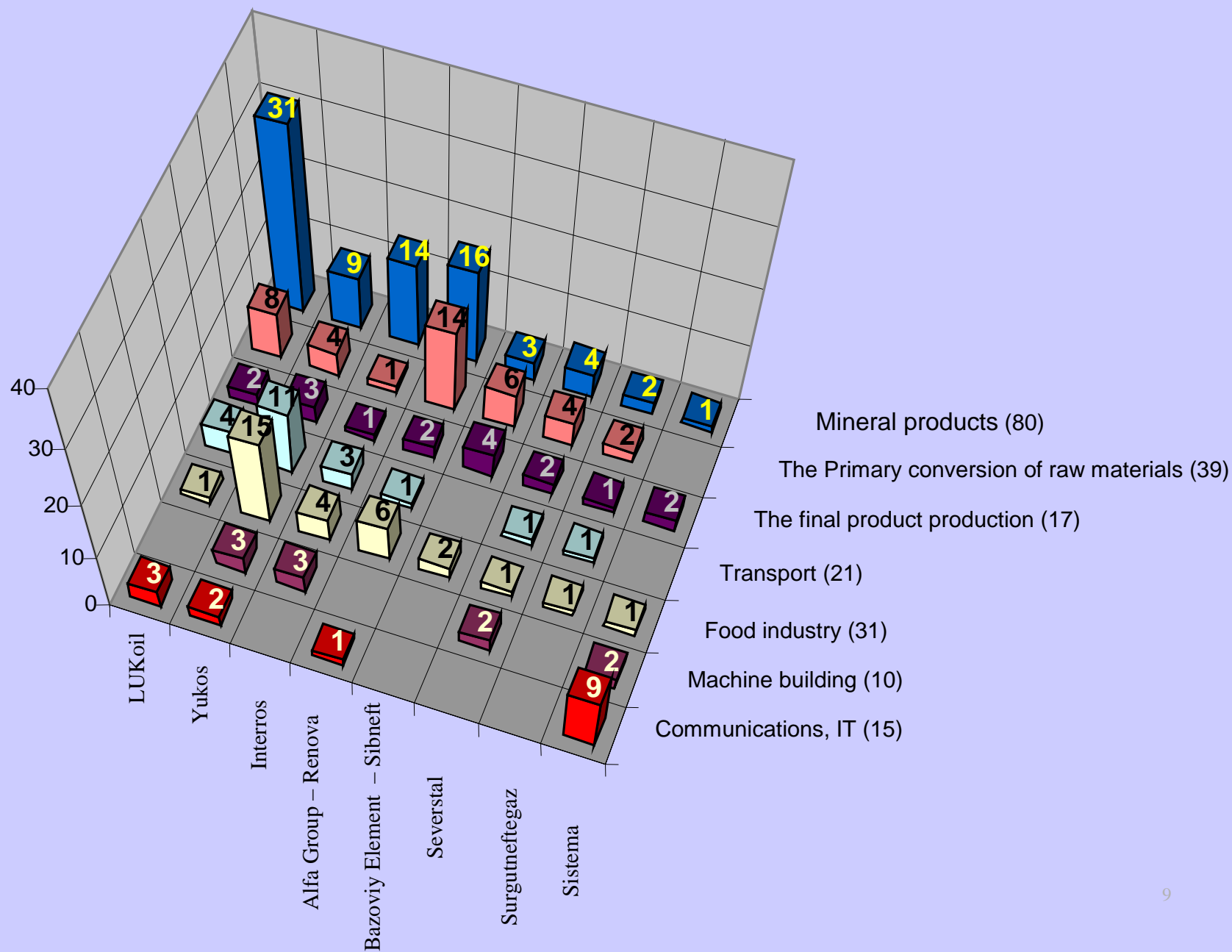
- Total amount of employed in Russian economy
- ◆ Share of employees at businesses under IBG
- ◆ investigation in total amount of employees in Russian economy

Industrial Development of IBGs : Trends

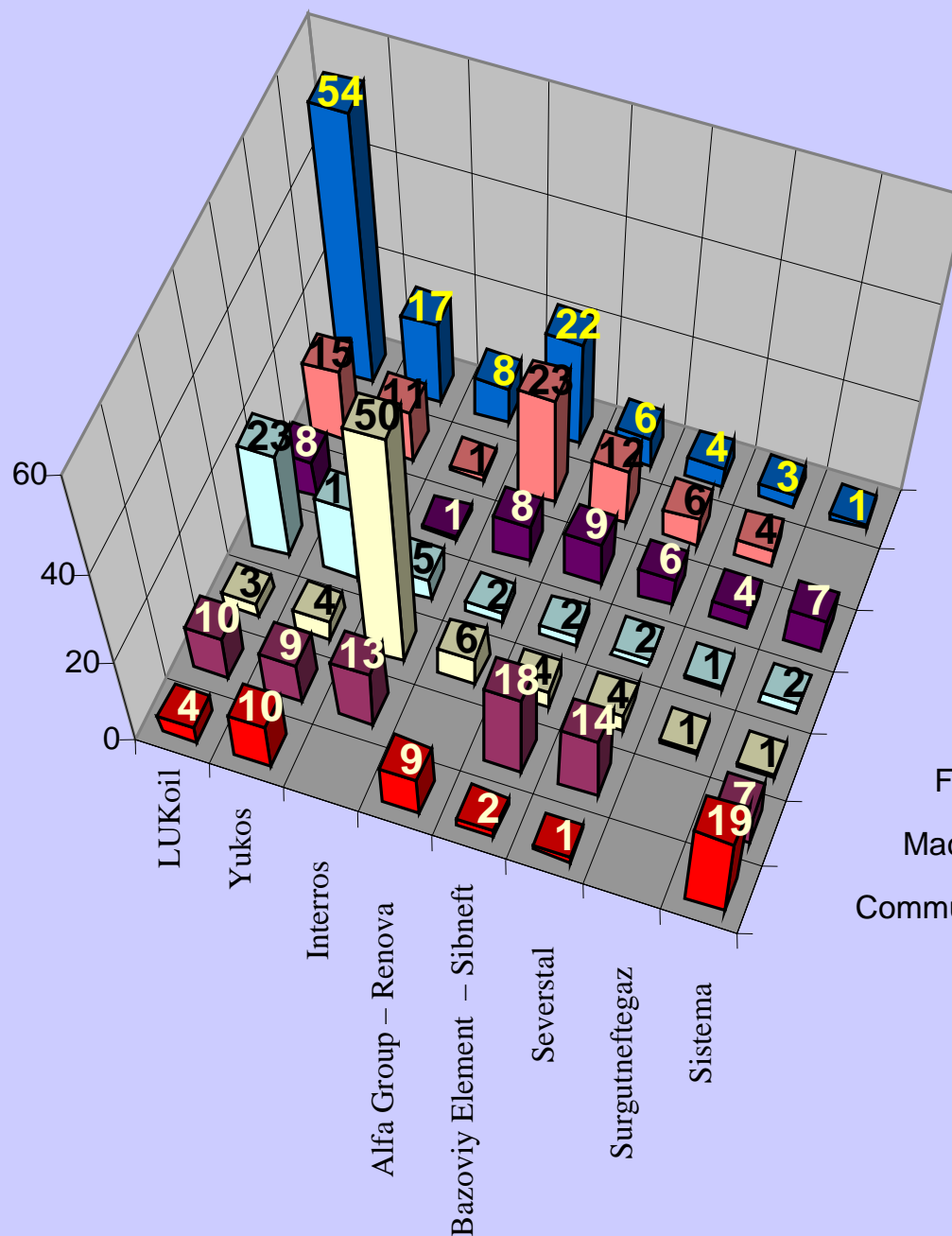
Evolution of IBG business profile



Tendencies in branch development of IBGs, 1996 z.

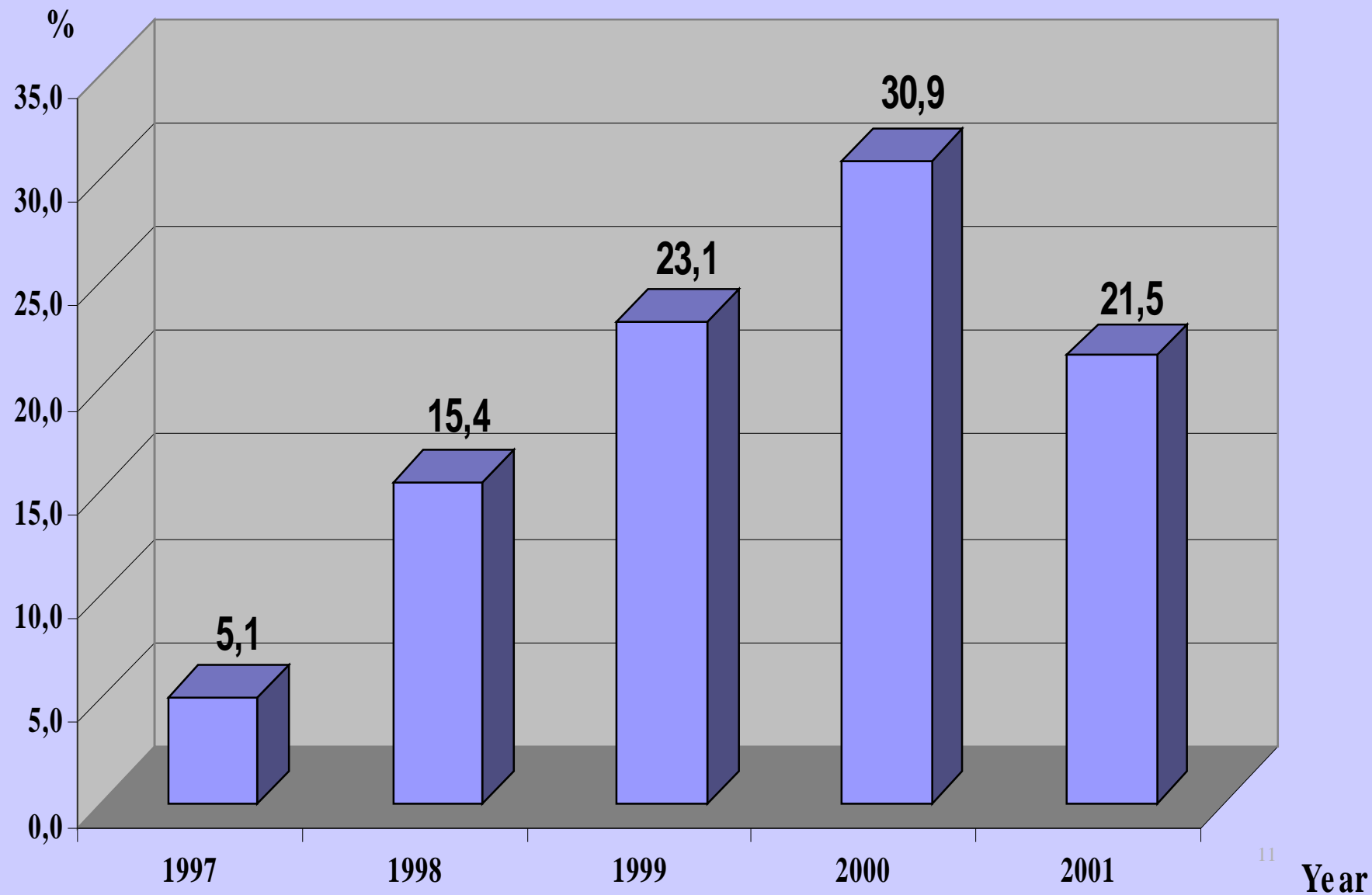


Tendencies in branch development of IBGs, 2001 z.

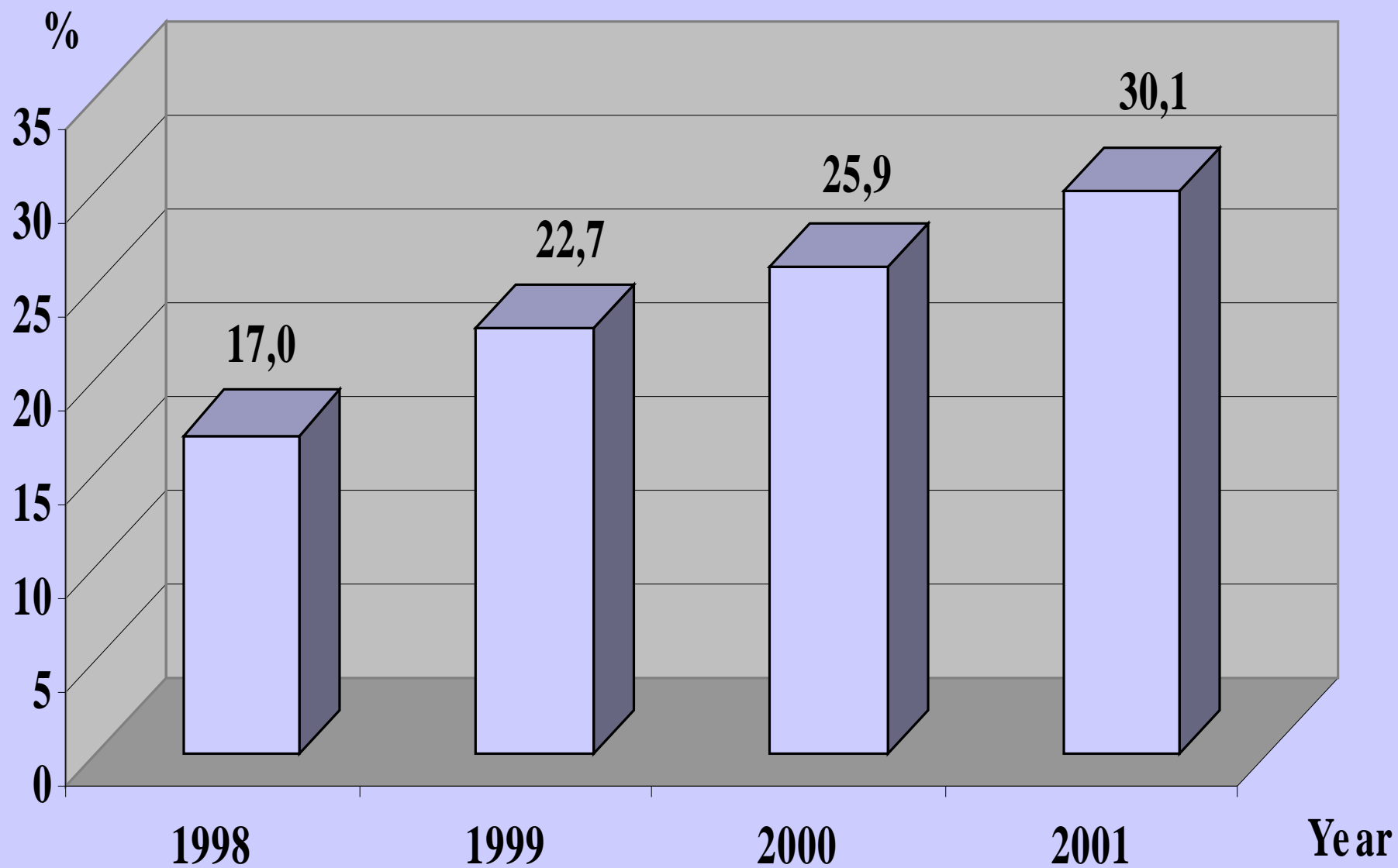


- Mineral products (115)
- The Primary conversion of raw materials(72)
- The final product production(55)
- Transport (53)
- Food industry(73)
- Machine building (71)
- Communications, IT (45)

Share of Payments Generated by IBGs in Total Volume of State Budget Profit Tax Revenues

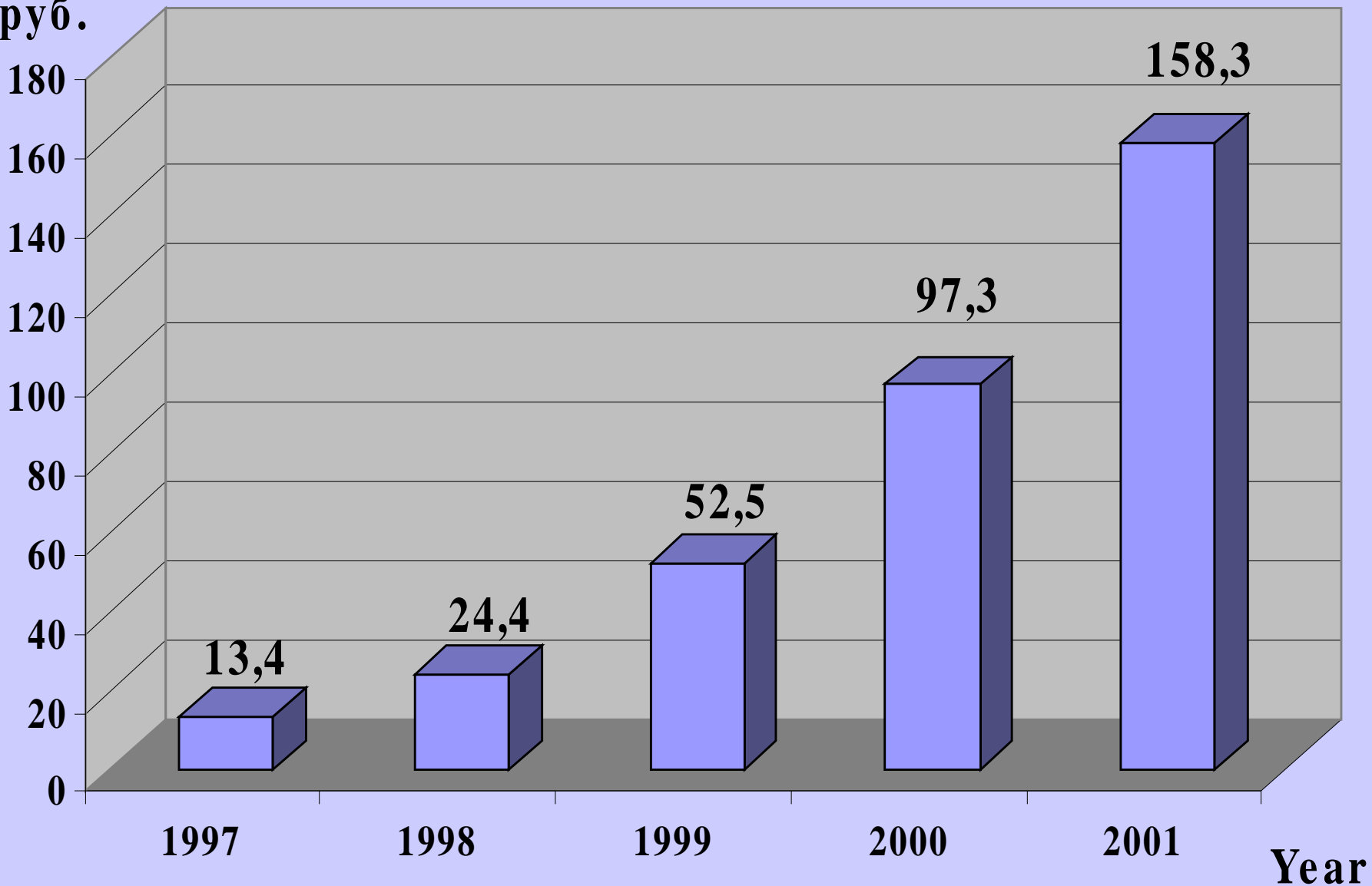


Share of Eight IBGs in Volume of Export of Russian Federation



Long term investments of IBG enterprises

Млрд. руб.



INSTITUTIONAL INFLUENCE

POSITIVE:

- Ø Adapting big industry to market**
- Ø Cutting transaction expenses, mediating between individual companies and imperfect markets**
- Ø Mediating between IBG companies, foreign partners and the authorities**
- Ø Improving the economy control and stability, eroding the economic basis for separatism**

NEGATIVE:

- Ø Superfluous concentration of manufactures and capital**
- Ø Localization of economic relations inside the IBGs**
- Ø The blockage of horizontal economic connections**

IBG Regional Expansion: Dynamics

#	Integrated Business Groups	1993	1995	1997	1999	2001
1	LUKoil	5	15	23	22	27
2	Alfa Group – Renova	3	8	8	38	46
3	Yukos	10	15	22	28	29
4	Bazoviy Element - Sibneft	-	-	-	16	26
5	Interros	1	11	15	23	25
6	Surgutneftegaz	3	-	7	9	11
7	Sistema	1	13	21	38	43
8	Severstal	-	3	5	8	16

Attraction of Federal Districts for IBGs accomodation, 2001

	LUKoil	Yukos	Interros	Surgutneftegaz	Alfa Group – Renova	Bazoviy Element – Sibneft	Severstal	Sistema	Total
Total	378	312	201	51	193	138	136	169	1578
CENTRAL	94	81	84	5	55	28	22	131	500
PRIVOLZHSKI	89	69	33	2	41	45	28	5	312
NORTH-WESTERN	99	23	20	8	8	0	56	11	225
SIBERIAN	0	95	24	0	38	54	7	6	224
URALS	38	25	3	36	37	10	4	6	159
SOUTHERN	51	15	31	0	10	0	10	7	124
FAR EAST	7	4	6	0	4	1	9	3	34

Possible scenarios of corporate development in Russia

1. Corporatization of IBGs :

transformation to public highly diversified industrial corporations, supplying a wide range of products and services to markets

2. Leverage Buy-out:

high probability of selling part of non-core assets during “the business core” forming

3. Disintegration:

a) “Russian revolution of managers” – managers seize blocking stock of a profitable company and force its owners to hand over control stock

b) Collapse and bankruptcy