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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”**

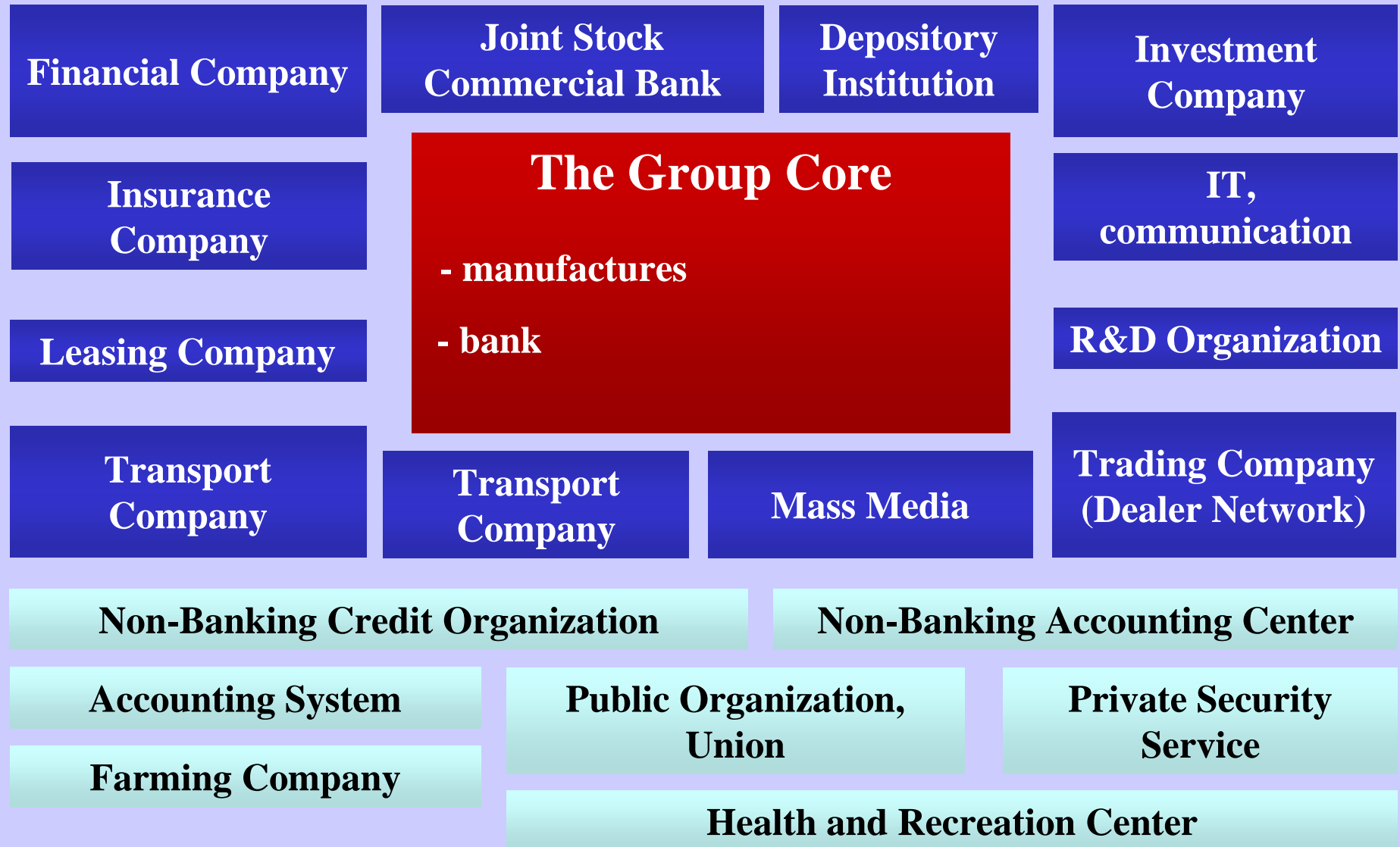
## *Economic Indices of IBGs, 2000-2001*

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
<b>LUKoil</b>	<b>406</b>	<b>445</b>	<b>121</b>	<b>102</b>	<b>6</b>	<b>7</b>	<b>22</b>	<b>36</b>
<b>Alfa Group – Renova</b>	<b>174</b>	<b>394</b>	<b>103</b>	<b>143</b>	<b>5</b>	<b>6</b>	<b>11</b>	<b>33</b>
<b>Yukos</b>	<b>252</b>	<b>315</b>	<b>135</b>	<b>106</b>	<b>5</b>	<b>6</b>	<b>13</b>	<b>17</b>
<b>Bazoviy Element – Sibneft</b>	<b>155</b>	<b>274</b>	<b>220</b>	<b>173</b>	<b>4</b>	<b>5</b>	<b>2</b>	<b>3</b>
<b>Interros</b>	<b>184</b>	<b>224</b>	<b>274</b>	<b>199</b>	<b>4</b>	<b>4</b>	<b>12</b>	<b>10</b>
<b>Surgutneftegaz</b>	<b>171</b>	<b>179</b>	<b>79</b>	<b>95</b>	<b>2</b>	<b>2</b>	<b>33</b>	<b>35</b>
<b>Sistema</b>	<b>147</b>	<b>178</b>	<b>144</b>	<b>н/д</b>	<b>н/д</b>	<b>н/д</b>	<b>н/д</b>	<b>21</b>
<b>Severstal</b>	<b>79</b>	<b>85</b>	<b>105</b>	<b>135</b>	<b>1</b>	<b>1</b>	<b>2</b>	<b>3</b>

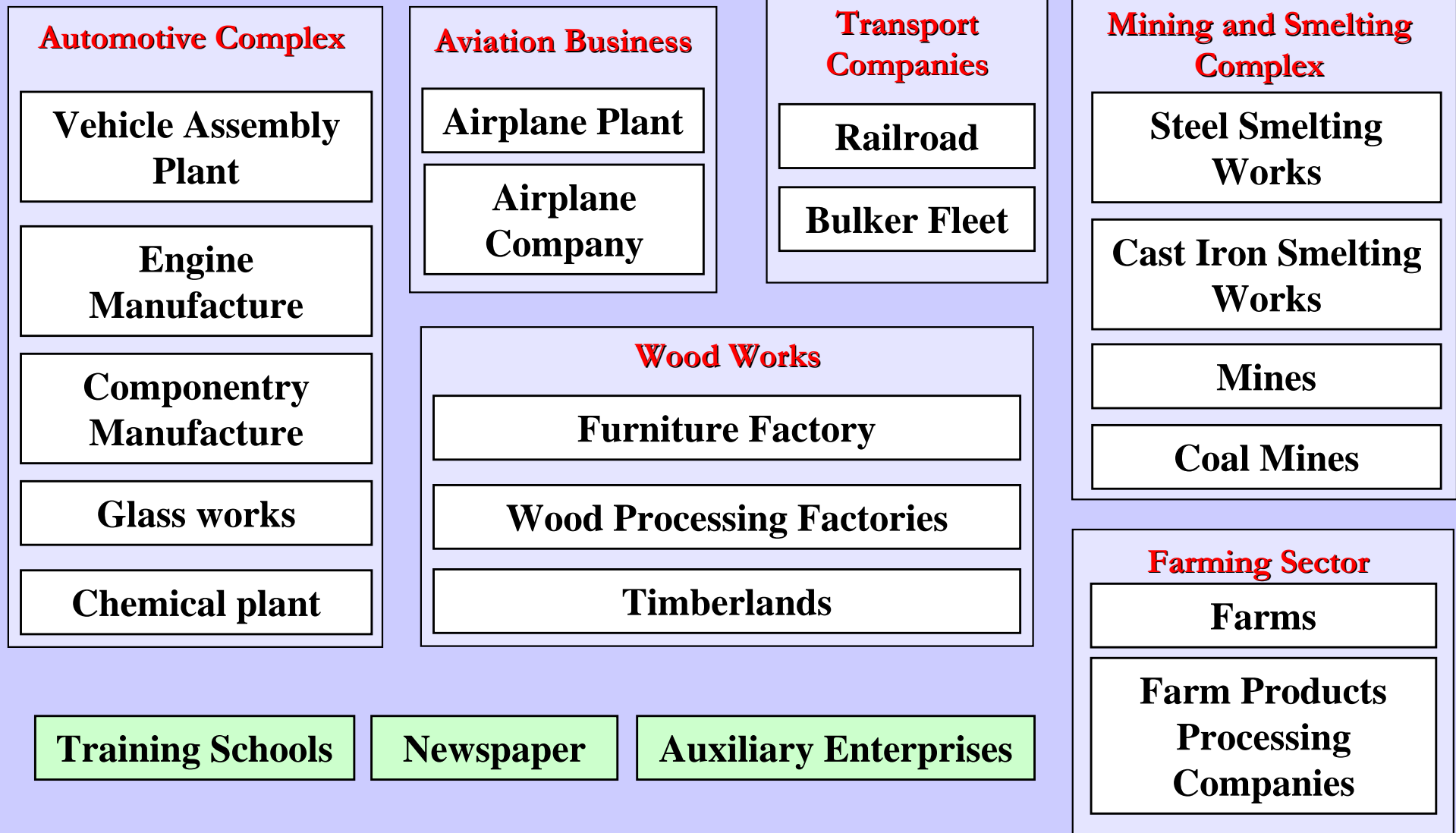
## *Industry output structure in 2001*

	billion of rubles .		%	
	market goods and services	industry	market goods and services	industry
<b>Total output</b>	<b>15301,8</b>	<b>5881,0</b>	<b>100,0</b>	<b>100,0</b>
<b>Natural monopolies</b>	<b>1604</b>	<b>820</b>	<b>10,5%</b>	<b>13,9%</b>
Electricity	510	454	3,3%	7,7%
GAS	475	366	3,1%	6,2%
Railway transport	320		2,1%	
Pipeline transport	299		2,0%	
<b>Integrated Business Groups</b>	<b>2093,9</b>	<b>2093,9</b>	<b>13,7%</b>	<b>35,6%</b>
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%
<b>Others</b>	<b>11604,4</b>	<b>2967,1</b>	<b>75,8%</b>	<b>50,5%</b>

# *Typology of IBG structural elements*

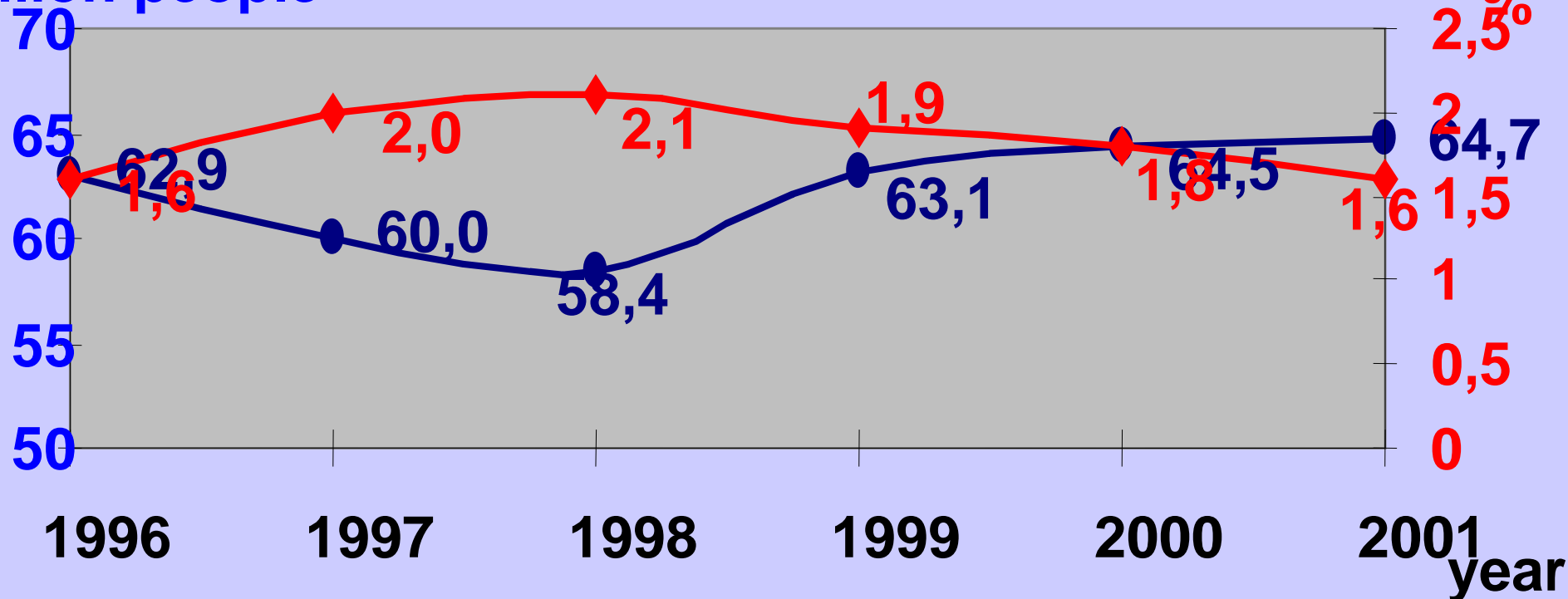


# *Business Structure of Ford Motor Company Divisions, 1927*



## *Share of IBG Personnel in Total Number of Employees*

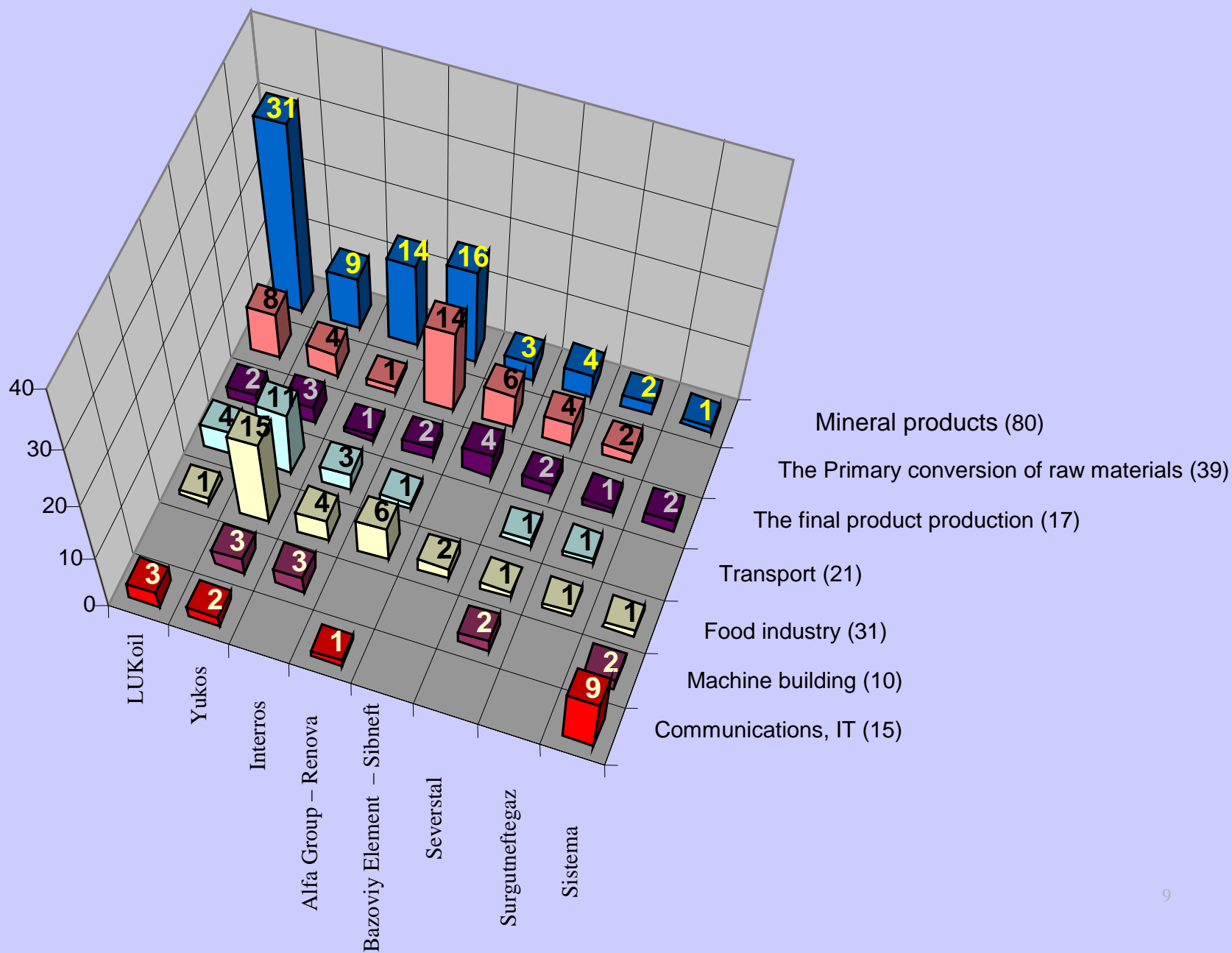
Million people



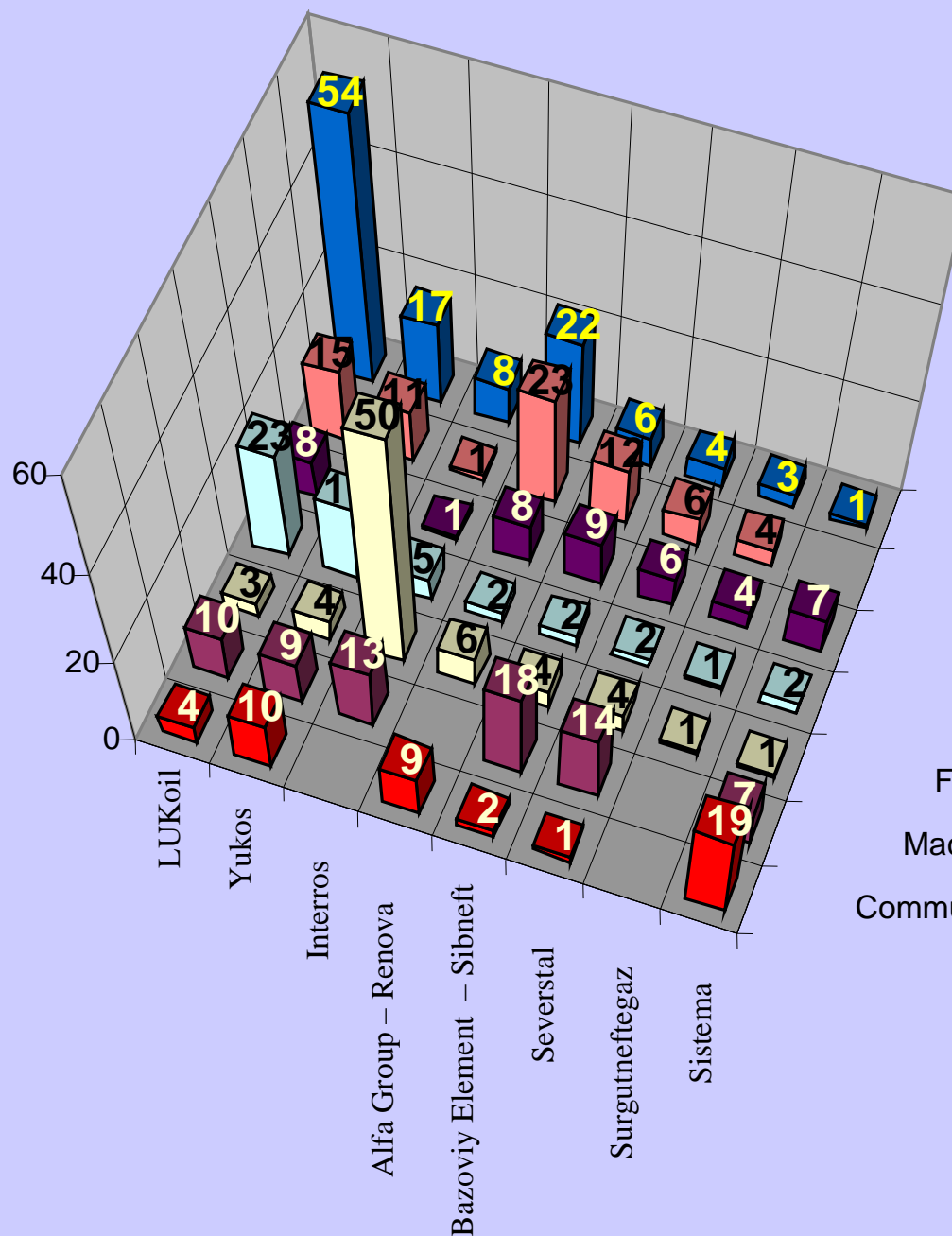
- Total amount of employed in Russian economy
- ◆ Share of employees at businesses under IBG
- ◆ investigation in total amount of employees in Russian economy



# Tendencies in branch development of IBGs, 1996 z.

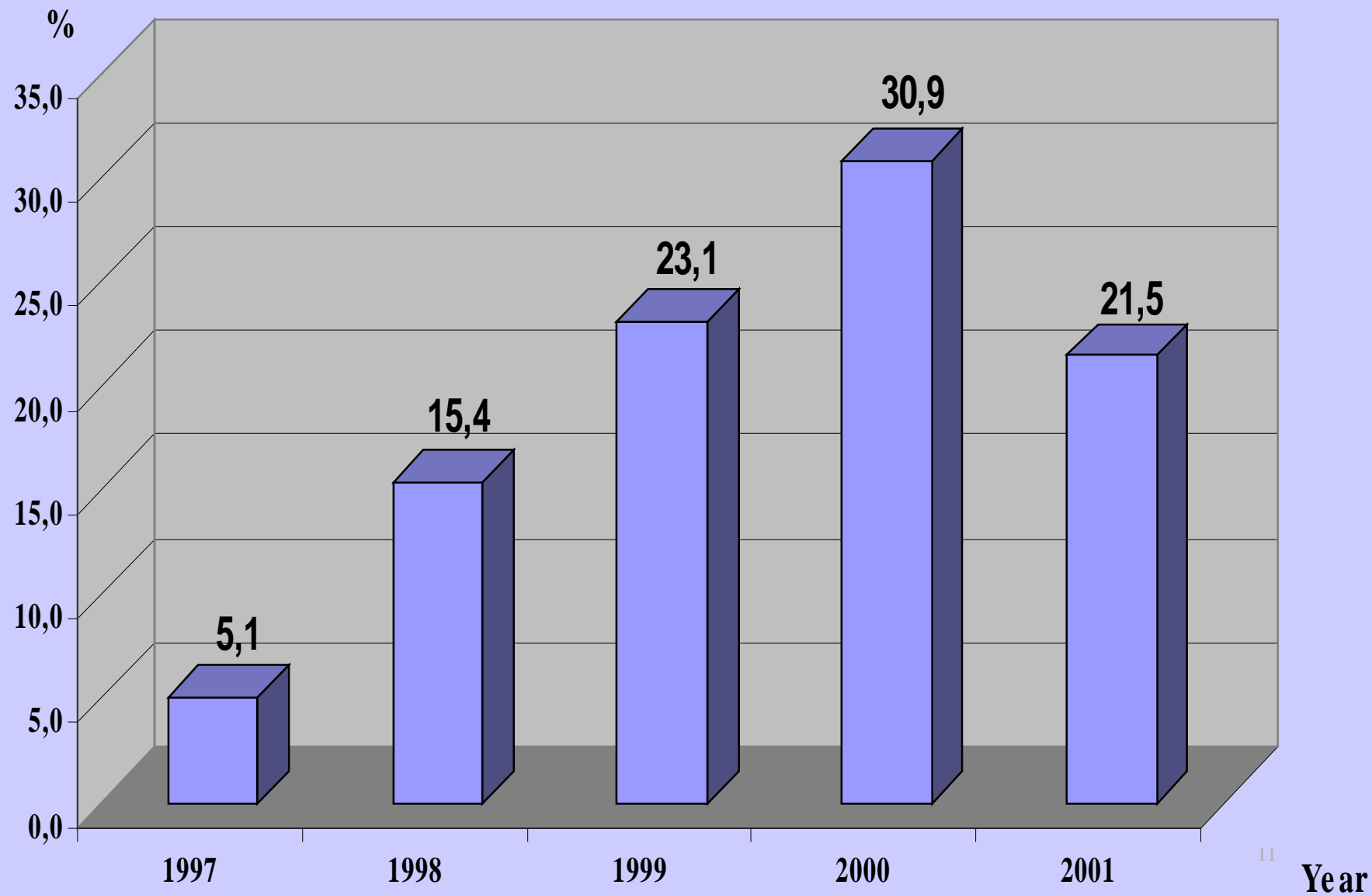


# Tendencies in branch development of IBGs, 2001 z.

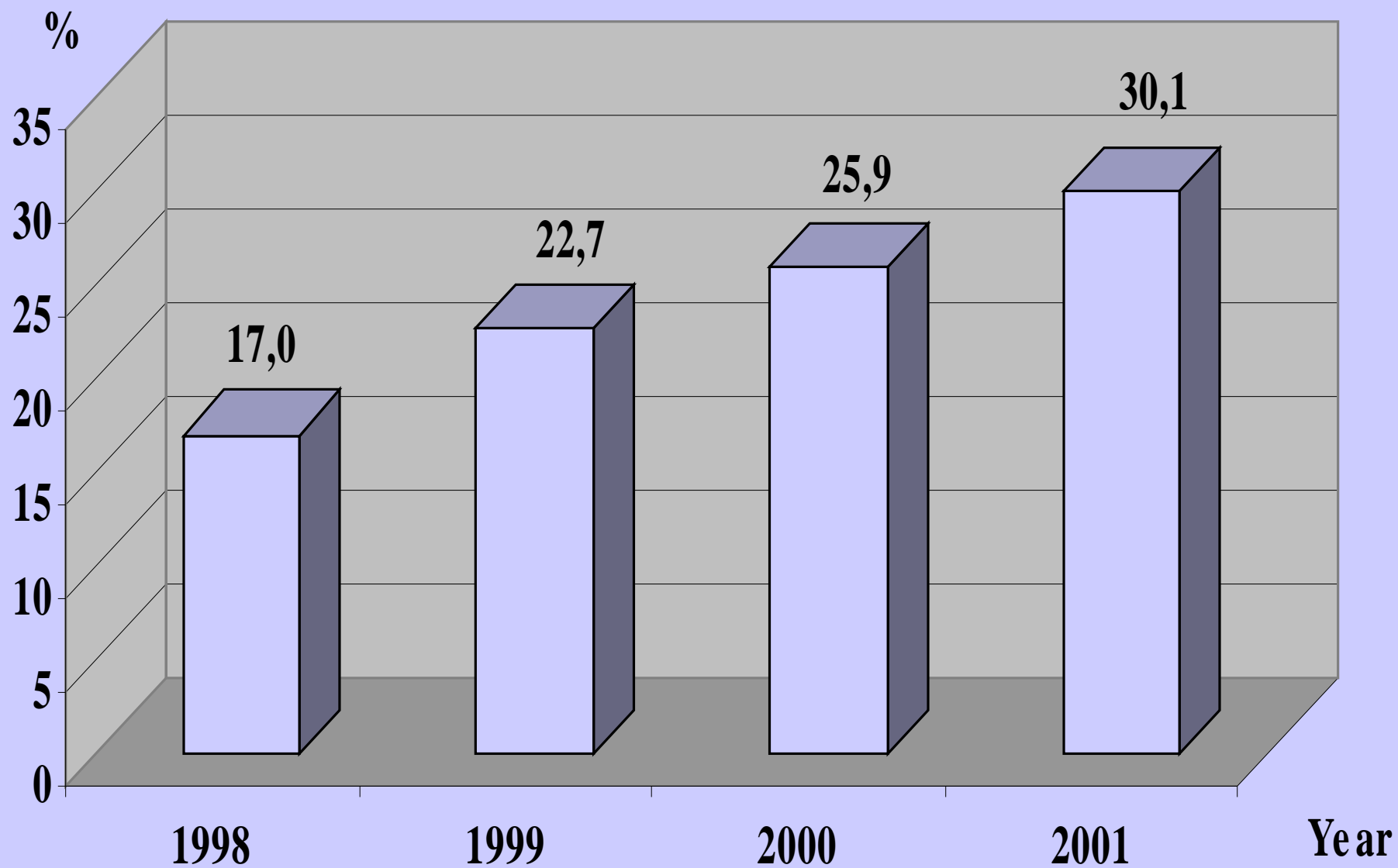


- Mineral products (115)
- The Primary conversion of raw materials(72)
- The final product production(55)
- Transport (53)
- Food industry(73)
- Machine building (71)
- Communications, IT (45)

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

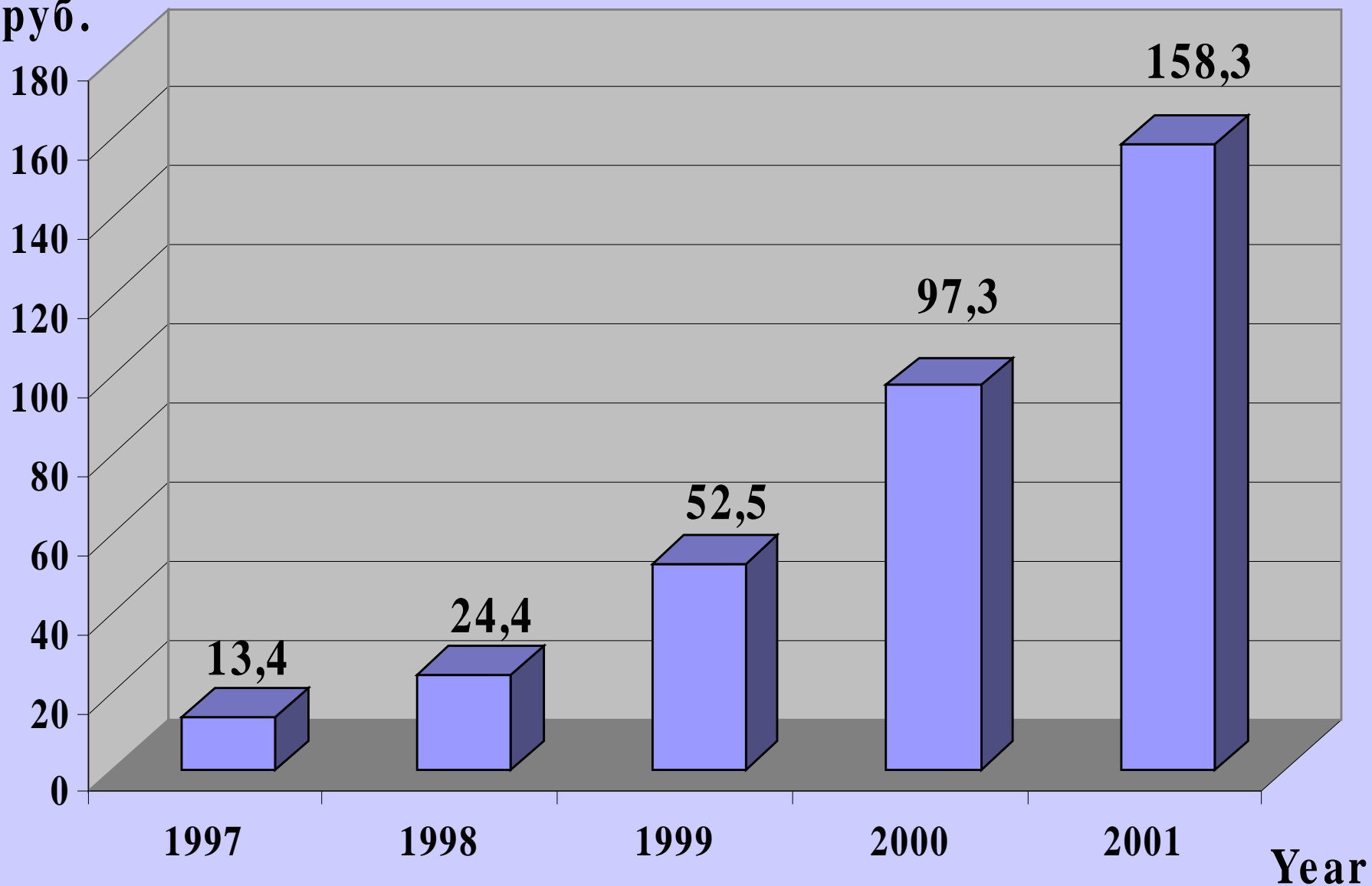


## *Share of Eight IBGs in Volume of Export of Russian Federation*



## *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*

	<b>LUKoil</b>	<b>Yukos</b>	<b>Interros</b>	<b>Surgutneftegaz</b>	<b>Alfa Group – Renova</b>	<b>Bazoviy Element – Sibneft</b>	<b>Severstal</b>	<b>Sistema</b>	<b>Total</b>
<b>Total</b>	<b>378</b>	<b>312</b>	<b>201</b>	<b>51</b>	<b>193</b>	<b>138</b>	<b>136</b>	<b>169</b>	<b>1578</b>
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**