Impact of Corporate Ownership on Economic Performance of Agroholdings in Russia

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Abstract

This study conveys the impact of corporate ownership on economic performance of agroholdings – integrated agricultural, *processing*, marketing, financial and industrial business units in Russia's agro-food sector. Using a unique database of the All-Russian Nikonov-Institute of Agrarian Problems and Informatics, we investigate 151 agroholdings in Russia and evaluate their economic performances for 2006. Applying the multiple linear regression analysis we were able to quantify corporate ownership and analyze a priori unobserved factors. The results of the econometric estimation reveal that state ownership exerts negative influence on the economic performance of agroholdings.

Keywords: Agroholding, Corporate Ownership, Performance, Russia.

Introduction

The presence of business groups is simultaneously well documented as an essential institution of corporate governance in industrialized and emerging economies. The essence of their economic dispensability, however, is frequently questioned and summoned under the pretense of existing counter-argumentation characteristic in both worlds. Most studies on business group governance and ownership effects on their performance encompassed the corporate world of developed countries, with particular emphasis paid to the US. In recent years, however, the research also touched upon the developing countries.

The economic value of business groups, concomitant to validating the agency theory, is commonly measured by examining corporate ownership structures and firm performances, induced by the premise that upon separation of ownership and control, agents are prone to extract benefits from their principals to their own advantage. Accordingly, the literature scrutinizing corporate ownership composition and its impact on firm economic performance consists of positive, negative, as well as null evidence, with respect to such relationship.

In the US, many scholars found no evidence pertaining to any link between firm economic performance and ownership structure, ownership change, board composition, and large stockholdings. With regard to Western Europe, ownership concentration and economic performance of firms was found to be positive with respect to shareholder value and profitability, although, in most cases the relationship generally differed across economies, depending on national systems of corporate governance, with the dominant shareholders negatively impacting the long-run performance. In Eastern Europe, a positive relationship was found between ownership concentration and corporate performance, particularly when the ownership is foreign, and mixed of state and private. On the negative side, irrespective of the controlling shareholder, large-block shareholdings negatively impacted firm investment and performance. In Asia, group affiliated members were found to show higher efficiency than non-affiliated ones, however the relationship was also found to vary depending on a particular economy, i.e. firm affiliates, as well as industry members, were found to have higher profits than non-affiliates in 6 out of 14 countries, lower profits were found in 3 out of 14 countries, and no significance was found in 5 out of 14 economies.

Methodology and data description

Because the world market economies are exceptionally diverse, there is no consensus reached in the literature regarding how to measure corporate performance. Methodologies vary depending on firms' country of origin, legal ownership forms, ownership structures, corporate dimension, and plenty of other variables which further complicate the assessment of business groups' performance. In this study we employ land and labor productivities as our prime economic performance indicators, measured by revenue, revenue per 1 hectare of land, and revenue per 1 employee, accordingly.

According DEMSETZ and VILLALONGA (2001), no significant relationships was found between shareholder concentration and average profit rate, i.e. there was no empirical relationship established between ownership structure and firm performance. Structure of ownership was, therefore, found to vary depending on encountered circumstances, particularly, with respect to economies of scale, regulation, and stability of environments the firms operated in. Subsequent to the aforementioned logic, we should find no correlation between types of legal forms of ownership and performance in Russia's agroholdings. Notwithstanding, considering the wayward and unorthodox nature of the legal, political and socio-economic environment in Russia, our prime and only hypothesis is as follows: *Ownership structure is related to economic performance*.

The following is the multiple linear regression model constructed in our study to analyze the overall impact of legal types of ownership on economic performance of agroholdings:

$$P = \alpha_0 + \alpha_S \cdot \ln S + \alpha_L \cdot \ln L + \alpha_A \ln A + \delta_P \cdot D_P + \delta_R \cdot D_R + \delta_M \cdot D_M \qquad (1)$$

where P represents dependent variables for economic performance, i.e. revenue (R), revenue per 1 hectare of farmland (RA), and revenue per 1 employee (RE). The agroholdings' size, labor, and land, constituting the independent variables, are depicted by S, L, and A. The legal forms of ownership composed of private, regional, and municipal agroholdings, are denoted by D_P, D_R, and D_M and signify the control variables in our sample.

Econometric results and Conclusion

The economic performance was evaluated in 151 Russia's agroholdings in 2006 and was found to be positively correlated. The State shareholding ownership negatively influenced an agroholding performance, in general, with private ownership positively impacting its revenue. Regional and municipal ones negatively influenced agroholdings' performance, but were not statistically significant. Augmenting the agricultural organizations negatively affected the agroholdings' revenue.

References

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