

Ownership concentration: the case of the Baltic States¹

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Governance and Disclosure in the Accession Process'

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Anete Pajuste
Department of Finance, Stockholm School of Economics

Mikael Olsson
BFMG, University College of South Stockholm and SITE, Stockholm
School of Economics

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Introduction

This draft paper has been prepared for the Closing Conference of the ACE Project on Corporate Governance and Disclosure in the Accession Process in Portorož, Slovenia. The aim of the paper is to present a comparative analysis of ownership concentration in the three Baltic countries, as well as relate it with other Eastern European countries and Western Europe.

The analysis presented here is based on a sample of companies from Estonia, Latvia and Lithuania (264 observations) as of year 2000. At the current moment, only data on share capital participation is available in these countries². Nevertheless, the dual class shares or other ownership-control separation devices are not very common. Therefore we regard the data comparable with other studies, which focus on share of voting rights.

Data

The sample of data includes 264 companies – 103 Estonian, 56 Latvian, and 105 Lithuanian firms. The ownership information was obtained from Surveys on Estonian, Latvian and Lithuanian Corporate Governance Rules, Statistics and Institutions (within the European Corporate Governance Network project).

The number of observations for the first largest owner is 264, for the second largest – 210, and for the third largest – 150. The reason for decreasing number of observations is the high ownership concentration level. In 20% of companies the two largest owners jointly hold 90% of capital or more.

Table 1 shows the average ownership stakes held by the three largest owners, classified by countries. The total sample average for the first largest owner is 52.1% of capital, for the second largest owner – 16.4%, and for the third – 9.2%. Generally, this is rather high ownership concentration level. This gives another evidence that there is no need for ownership-control separation, because the largest owner is already having the control through ownership participation.

² The block data is available for Lithuania but for the reasons of comparability with the other two Baltic

Table 1: Ownership stakes for the 1st, 2nd and 3rd largest owner in Estonia, Latvia and Lithuania

Country	Shareholder	Average % of capital	Nr.of observations
Estonia	1 st largest	61.09	103
	2 nd largest	21.57	76
	3 rd largest	10.10	49
Latvia	1 st largest	49.47	56
	2 nd largest	9.71	54
	3 rd largest	5.36	48
Lithuania	1 st largest	44.72	105
	2 nd largest	15.96	80
	3 rd largest	11.70	53
Total 1 st largest		52.12	264
Total 2 nd largest		16.38	210
Total 3 rd largest		9.15	150

Comparing the ownership figures with Poland and Slovenia (see Table 2), we see that the concentration in the Baltic states is more severe than in the other two CEE countries. These figures are also close to the size of the largest ultimate voting block in majority of Western European countries (Table 1, “*The Control of Corporate Europe*”), which is above 50% in Austria, Belgium, Germany and Italy. Though we have to keep in mind that the cash flow ownerships are much lower in the Western Europe. Thus, the first argument is that the Baltic countries are still in a stage where large owners, who have both high ownership stakes and thus high voting power, control companies.

Table 2. Comparison of the cash flow rights held by three largest owners in a sample of countries

Country	1 st largest	2 nd largest	3 rd largest
Estonia	61.1	21.6	10.1
Latvia	49.5	9.7	5.4
Lithuania	44.7	16.0	11.7
Poland*	42.4	14.8	9.2
Slovenia**	27.4	13.4	9.2
Finland***	32.8	9.8	5.7

* sample of 210 non-financial companies at the end of 2000 (data provided by Maciej Dzierzanowski and Piotr Tamowicz)

** sample of 136 listed Slovenian companies as of July 6, 2000 (data from a study by A.Gregori_, J.Pra_nikar and I.Ribnikar)

*** sample of 136 listed Finnish companies as of end 2000 (data from a study by B.Maury and A.Pajuste)

From Table 1, we can notice that the highest ownership concentration is in Estonia. The largest owner holds on average 61.1%.

Table 3 shows the number and average ownership stakes by types of owners. The most common largest owner type is domestic company (36.7% of all companies). While foreign companies (not mentioning two cases of private foreign owners) hold on average the largest ownership stake (61.8%). This is partly the result of privatization through attracting strategic investors, i.e. investors for a majority block of shares.

Interestingly, Table 3 also shows that the second largest owner is most often a private person, usually the founder or a manager of the company.

Table 3. Type of the 1st, 2nd and 3rd largest owner on average.

Type of the owner	Average % of capital (1 st)	Observations (1 st)	Average % of capital (2 nd)	Observations (2 nd)	Average % of capital (3 rd)	Observations (3 rd)
Private (domestic)	37.46	55	13.35	82	8.59	58
Company (domestic)	59.38	97	22.54	34	9.87	26
Financial (domestic)	49.72	16	16.02	26	8.27	16
Company (foreign)	61.75	46	21.97	19	11.08	12
Private (foreign)	63.69	2				
Financial (foreign)	44.98	25	17.96	30	9.68	22
Other (including Privatization Agency)	57.20	15	11.64	16	9.86	12
State Insurance fund	24.16	8	6.98	3	5.29	4
Total	52.12	264	16.38	210	9.15	150

When looking into the owner types by countries (see Table 4) we see that in Estonia and Latvia *domestic company* remains the most common type of the largest owner. While in Lithuanian sample the largest owner most often is a private person (28 cases), followed equally by a domestic company and a foreign company.

Table 4. Type of the largest owner by country

Type of the 1 st largest owner		Estonia	Latvia	Lithuania	Total
Private (domestic)	Average % of capital	45.98	52.77	25.85	37.46
	Nr of observations	17	11	27	55
Company (domestic)	Average % of capital	69.01	54.62	44.66	59.38
	Nr of observations	48	26	23	97
Financial (domestic)	Average % of capital	41.42	55.40	54.24	49.72
	Nr of observations	6	4	6	16
Company (foreign)	Average % of capital	63.50	45.91	63.81	61.75
	Nr of observations	18	5	23	46
Private (foreign)	Average % of capital	94.42		32.97	63.69
	Nr of observations	1		1	2
Financial (foreign)	Average % of capital	56.63	36.34	33.58	44.98
	Nr of observations	12	3	10	25
Other (including Privatization Agency)	Average % of capital	32.91	38.40	70.35	57.20
	Nr of observations	1	5	9	15
State Insurance fund	Average % of capital		8.81	29.28	24.16
	Nr of observations		2	6	8
Total Average % capital (1 st largest owner)		60.77	61.09	49.47	44.72
Total Nr of observations		104	103	56	105

The sample companies are classified according to their field of activity, altogether in 15 industry groups. Table 5 shows the average ownership stake of the largest owner within an industry group.

Table 5. The ownership stake of the largest shareholder by industry

Industry	1 st largest shareholder (average % of capital)	Nr.of observations
Dairy	37,78	11
Computer	40,49	2
Textile	43,05	9
Construction	45,59	19
Other	47,97	14
Food	46,48	33
Paper	49,91	6
Manufacturing	50,22	60
Finance	54,77	27
Oil	55,16	4
Fishing	56,79	3
Utility	58,27	6
Trade	59,42	21
Telecommunications	60,00	1
Forestry	60,60	8
Service	61,88	27
Transportation, storage	62,09	13
Total	52,12	264

The percentile plot of the largest shareholder's stake (see Appendix) reveals that in half of all companies in the sample the largest shareholder has at least 50.4% of the capital. The respective figures for each country are: at least 55% in Estonia, 51.3% - in Latvia, and 41% - in Lithuania. Moreover, in the aggregate plot there is a clear concentration of companies around the 50% ownership level. No other cut-off points seem important. We can observe a very close resemblance to the percentile plot of the largest block-holder in the Czech Republic (see Appendix).

The separate country plots are quite interesting. Comparing them with the percentile plots of the largest voting block in Europe (*"The Control of Corporate Europe"*) we can draw some parallels. Estonia is the closest to Germany, with more weight above 45° line, so more concentrated ownership, especially around 50% cut-off. Latvian plot is the closest to Italy and Belgium, with a clear weight above 45° line below 50% ownership, and below 45° line once the 50% cut-off is exceeded. Lithuania is closer to Sweden, Spain and Netherlands, revealing quite uniform density of firms by ownership blocks, though slightly below 45° line.

Conclusions

The ownership structure in the three Baltic states is very concentrated. The data shows that the largest owner on average holds more than 50% of the share capital. One of the reasons for such corporate governance pattern has been the poor development of the stock market. The public stock market as a source of capital is practically non-functioning (See Table 6 for comparative statistics on stock market development in the three Baltic states). Therefore companies rely on private capital and loans.

Table 6. Stock market development in the three Baltic States: some comparative statistics

	1993	1994	1995	1996	1997	1998	1999	2000
Market capitalisation, % of GDP, total equity market								
Estonia/TSE				16.7%	24.6%	9.4%	37.1%	35.8%
Latvia/RSE			0.2%	3.0%	6.1%	10.9%	13.2%	15.1%
Lithuania/NSEL	0.6%	2.5%	6.3%	15.9%	22.7%	27.5%	29.8%	27.2%
Turnover ratio, % of market capitalisation, total equity market								
Estonia/TSE				26.0%	138.1%	188.9%	14.9%	16.9%
Latvia/RSE			0.2%	8.3%	24.7%	12.9%	4.9%	25.7%
Lithuania/NSEL	1.7%	15.7%	9.8%	3.8%	11.0%	7.5%	9.7%	6.6%
Value traded, per cent of GDP, total equity market								
Estonia/TSE				4.3%	33.9%	17.8%	5.5%	6.0%
Latvia/RSE			0.0%	0.2%	1.5%	1.4%	0.6%	3.2%
Lithuania/NSEL	0.01%	0.4%	0.6%	0.6%	2.5%	2.1%	2.9%	1.8%

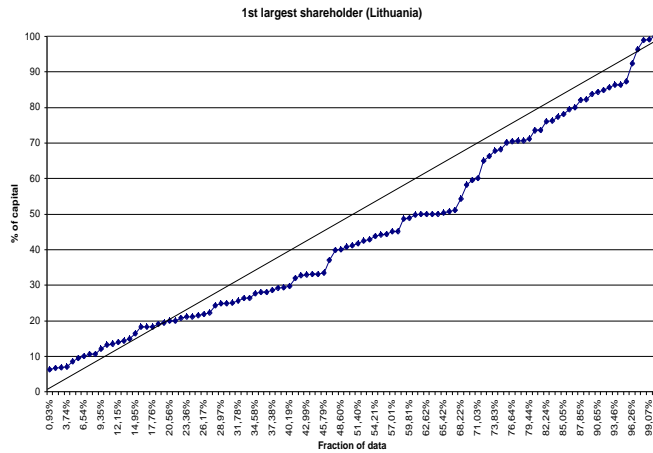
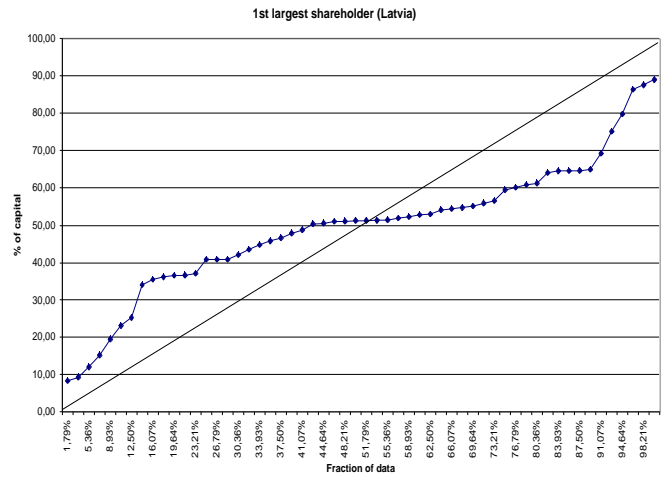
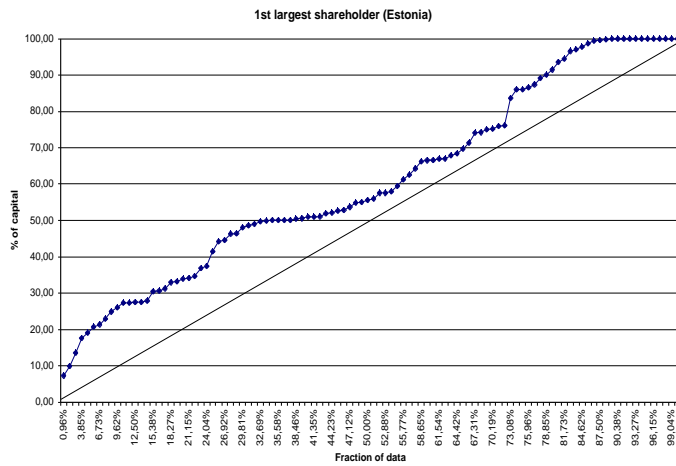
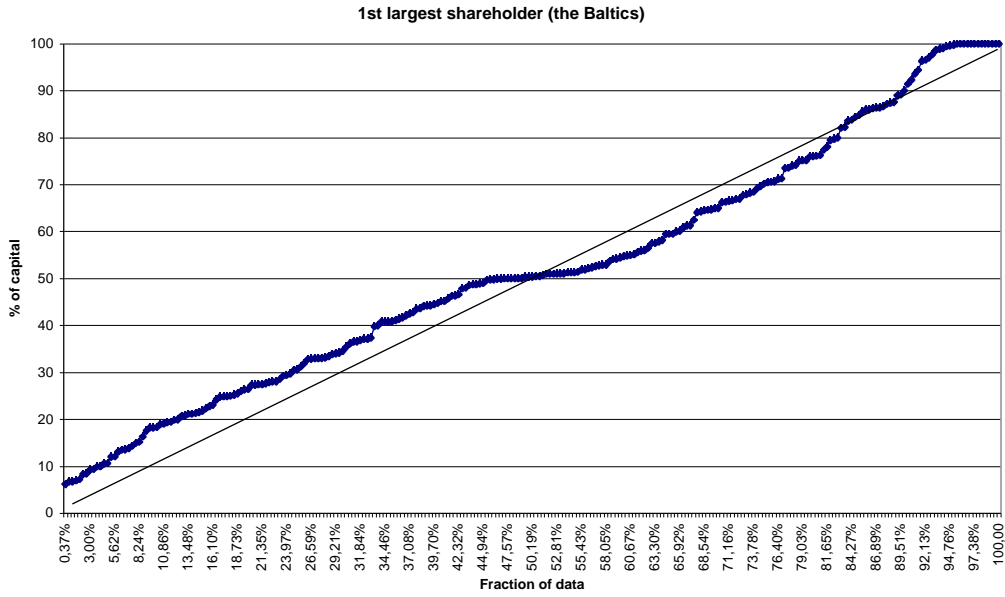
Source: National statistics; own calculations

To provide private capital, the potential owner usually requires some sort of control over the operations and strategic decisions, because the exit is not so easy. Moreover, gain in terms of share price appreciation is hard to expect, therefore the only way to gain from the investment is dividends or selling the company (or ownership block). Dividend decisions can be influenced only if the owner has a say in the management board. And to sell the shares it is more attractive to have a significant block of shares (together with control benefits). The parallels can be drawn again with the situation in the Czech and Slovak Republics where investment funds made their money on collecting blocks in the off-market trades.

As already discussed by Olsson and Alasheyeva (2000)³, the markets must gain public confidence to increase the stock market liquidity. Among other issues, the main drawbacks are poor enforcement of minority shareholder protection and lack of publicly available, reliable information on company performance. Only with increased transparency we can expect a decrease in ownership concentration.

³ Market Transparency and ownership concentration in Slovakia and the Baltics: a critical note. 2000. Paper for

Appendix. Percentile plots of the largest shareholder



Percentile plot of the largest shareholder (voting block) in the Czech Republic

