

## ICEST 2020

### International Conference on Economic and Social Trends for Sustainability of Modern Society

## STATE COMPANIES AS SOCIO-ECONOMIC DEVELOPMENT DRIVERS (LEGAL AND ORGANIZATIONAL ASPECTS)

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### *Abstract*

This article is devoted to legal and organizational aspects of functioning state companies in the Russian Federation. State companies play a significant role in Russian economy. They are represented in many sectors of the economy (oil, gas, heavy and light industry, banking, etc). Some companies give a significant number of jobs (PJSC Gazprom, PJSC “NK “Rosneft”, VTB Bank (PJSC), PJSC Sberbank, PJSC Aeroflot, etc.). In Russian there are a lot of scientific papers devoted to different spheres of economic knowledge. But there is a lack of researches in the field of functioning of companies with state participation. This article is one of small amount of works on stated topic. Federal and regional companies with state participation as socio-economic development drivers provide and stimulate growth of GDP, employment and incomes for the population, increase of the level and life expectancy, improvement of the environment. They help to: implement large-scale and long term projects; use procurement procedure for saving money; accumulate labor, intellectual potential, technologies, property and other resources; save jobs in small cities; give employees confidence in their future; full pay of salary, taxes and deductions to funds; maintain a population in certain territories of Russia, help to reduce deficit of regional and local budgets.

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**Keywords:** State company, company with state participation, Russian state company, state joint-stock company, socio-economic development.



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## 1. Introduction

Currently the socio-economic situation in the World and in most countries is far from easy. The Russian Federation isn't an exception. The difficulties due not only to coronavirus and low level of oil prices. Russian economy experiences sanction pressure. Economic growth slowed down a few years ago. Demand for goods and services fell.

The Russian government is seeking for solutions. To overcome this situation the state needs drivers capable to restart slow-down economic processes in the economy. Companies with state participation may well become such.

Russian public sector consists of 3.5K companies with state participation. Less than 1K is in federal property and 2.5 is in regional property of republics, regions and autonomous districts. Among them PJSC Gazprom, PJSC "NK "Rosneft", PJSC Sberbank, VTB Bank (PJSC) and other huge state companies.

The number of companies whose shares are owned by the subjects of the federation varies greatly. An average Russian region has 20-30 companies. Some of the subjects of the federation own shares of very large companies. The example is the Republic of Sakha (Yakutia). It has ¼ shares of the diamond giant AK ALROSA (PJSC).

## 2. Problem Statement

The Russian Federation as a state will celebrate its thirtieth anniversary next year. Many topics related to its economic basis and political characteristics have been studied in sufficient detail. However, there are still many areas that researchers mainly avoid for various reasons. One such area is the activities of state companies. It's impossible to say unequivocally this happens due to some concerns or for other reasons.

Today in Russia there is limited number of researches devoted to companies with state participation (Yakovlev, 2019). There some information resources with data on state companies (CML, 2020).

There are abroad researches devoted to corporate governance in Australia (Mees & Smith, 2019), Central and Eastern European (Godlewska & Pilewicz, 2018), African (Kilian, 2019) and other countries (Yoshikawa et al., 2014).

More often it's possible to find scientific papers on the themes: strategies of companies (Butkovskaya & Sumarokova, 2019), holding company type (Borovikov & Smolyakov, 2019), management development (Kudryavtseva et al., 2019), budgetary institutions (Chebotnikov et al., 2019), autonomous institutions (Kokhanovskaya & Nazarenko, 2018).

We can find judicial articles on the following issues: legal status (Makarova, 2017), litigation (Grebnev, 2016) and problems of public legal liability (Glazunova, 2019) of companies in Russian Federation.

Economic development as an object of scientific interest also is reflected in the researches (Lenchuk, 2016).

The lack of researches on the theme of the role of state companies in socio-economic development will be reduced by this article.

### **3. Research Questions**

The main research questions of this article are:

- define the concept «socio-economic development driver»;
- analyze the available literature on the topic of research;
- examine Russian Federation experience of using state companies as socio-economic development drivers;
- formulate research conclusion.

### **4. Purpose of the Study**

The purpose of this study is to analyze the legal and organizational aspects of state companies actions as drivers of socio-economic development.

To achieve stated research goal the author has to study practice of different state companies in Russian.

### **5. Research Methods**

To achieve the research goal and research questions the author decided to use in the article the methodology based on analysis, synthesis, comparison, induction, deduction. The author also applied for method of expert assessments, mental modelling, observation, description and other general scientific methods.

### **6. Findings**

Let's disclose the content of the basic used categories.

By the concept "state business entity" the author considers business entity (joint-stock company or limited liability company) with a share of the Russian Federation and / or a Russian region. The size of the share can be any – big or small.

Quite more difficult is to give a definition of concept "socio-economic development driver". Different authors include different content in socio-economic development. Also there is no consensus on what is a driver.

The author by the category "socio-economic development driver" consider a subject providing and stimulating growth of GDP, employment and incomes for the population, increase in the level and life expectancy, improvement of the environment.

Federal and regional state companies are able to contribute to each of these areas. Some companies already play a significant role in socio-economic development of a part of country's territory or even in whole Russia.

Let's see why a significant role for companies with state participation is existed in Russian Federation.

1. Flexibility of the legal forms of joint-stock company or limited liability company in contrast to state unitary enterprise, budgetary, official duty of autonomous institutions.

Companies are owners of their property and can use it for commercial activities. State unitary enterprises or institutions can't do so. For example, to rent out unused property they should do property valuation and get an approval from the state executive body. It takes in average from 3 month to 1 year. All that period organizations don't get anything for unused property. State companies can quickly rent out room (equipment, land, etc.) or even deposit there property as collateral for obtaining a working capital loan.

The procurement procedure is simpler than in state institutions (Osipov & Smotritskaya, 2016), but allows you to establish procurement control and save money for the company (Smotritskaya & Shuvalov, 2017).

2. Presence of formal and real opportunities to control what is happening in the company in real time. In state company besides general director is functioning a board of directors. It is formed from state representatives - civil servants and professional directors. The last ones are specialists in the corporate governance. They can monitor that is happening in the organization by visiting it or requesting documents (reports). Face-to-face and meetings in absentia of the board of directors can be held at regular intervals which allow to control the work of the CEO. Meetings can be considered on any issues of company governance.

Federal and regional companies in Russia also have a special control body - revision commission. It is formed from civil servants and independent experts. The main role of this body is verification of financial and other statements, transactions, compliance with legislation and identification of various violations.

3. State companies have an ability to implement large-scale projects or projects with a long term return. They can get financing from federal or regional budget. The Russian Federation or Russian regions don't risk with their finance because they are owners of companies which receive money. They can control money spending by boards of directors and revision commissions.

All the invested money in state company generates an increase of company's price. In case of sale of the company the Russian Federation or Russian region receive invested money back to the federal or regional budget.

Private investors may not have enough finance to invest in construction, expansion of production, purchase of new equipment. All this investments are long-term investments – min. 10-20 years. Not any entrepreneur is ready to do so. There are too many risks in Russia. The situation in legal sphere and economy can change at any moment and investor can lose his money. The other thing is that not many persons have free money and can invest significant amount of finance.

4. The Russian Federation and Russian regions can make an additional contribution to the authorized capital from the treasury property. There is a lot of unused or ineffective used state property in federal and regional treasuries.

The procedure for depositing property from the treasury into the authorized capital is not very complicated. That allows the procedure to be implemented within a fairly short period of time. The company will receive additional real estate that it lacked to expand production or other purposes. The owner will receive an increase in the value of the company.

5. Another interesting tool is the creation of state holdings. Russian experience in this area is positive. Over the past 10 years about 100 holdings have been created. Some are still in federal ownership, others are transferred to state corporations.

Holdings help to accumulate labor, intellectual potential, technologies, property and other resources.

6. Holding is a structure consisting of companies of various sizes and effectiveness. The presence of one control center allows to distribute resources within the holding. This helps weak organizations survive and grow stronger. In market conditions small companies went bankrupt and the local populations lose jobs and livelihoods.

7. The concentration of resources within the state holding allows to develop due to unused property. If the organization has any unused property for many years and there is no reason to believe that it will be needed in the foreseeable future it is referred to non-core assets. Sale of that kind of assets is a source of financing projects within the holding.

8. The attractiveness of jobs in companies with state participation for citizens. People trust the state more than entrepreneurs and are more willing to work for state organizations. Citizens see greater security in working for a state company. The patriotic component also plays a role in choosing an employer.

9. State companies formalize employees in accordance with labor law. This gives employees confidence in their future. Salary, taxes and deductions to funds are paid in full. Deductions allow a citizen to retire in the future and claim for other payments.

10. State companies create and maintain fairly stable jobs. That saves staff and maintains a population in certain territories of Russia. Contributions to regional and local budgets help to reduce their deficit.

## 7. Conclusion

State companies play an important role in Russian economy. The nature of a company as a specific legal entity and positive experience show that joint-stock companies and limited liability companies can play a significant role in Russian economy.

The Russian Federation use more often companies that Russian regions. But there are some active in this field subjects of federation. Among them Moscow city, Tyumen region, Ulyanovsk region, Khanty-Mansiysk autonomous okrug –Yugra, Yamal-Nenets autonomous okrug.

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