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### MANAGEMENT EFFICIENCY IMPROVEMENT AND ANTI-CORRUPTION MEASURES IN STATE-OWNED COMPANIES

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#### *Abstract*

The paper analyzes the process and results of the bankruptcy of one of the major government-owned road construction enterprises in Russia, Kamchatavtodor. The mechanisms of corporate management in the road sector are clearly seen on the example of one of the largest enterprises Kamchatavtodor plc. Since Kamchatavtodor's incorporation, its financial indicators had been falling dramatically year after year, and in 2014 the company finally became lossmaking. Describing the erroneous and even semi-criminal management of the company in the transition period, the author emphasizes that, sadly, the situation is rather typical for the present economic situation in Russia. The solution to the problem is seen in creating self-regulatory organizations which can take on certain managerial functions of the government and significantly increase the quality of asset management, especially crisis management. The implementation of the scheme, proposed in this article, could bring about the following positive results: decrease in state assets bankruptcy percentage, improved transparency and efficiency in corporate management, increase in profits, and hence in dividend payments, successful privatizations leading to increased budget revenue, independent professionals (directors) in the administration of companies, personnel lift, fight against corruption. The announced results correlate well with both the May and other decrees of the President and the Government of the Russian Federation.

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**Keywords:** Bankruptcy, road branch, corporate management, independent directors, state assets, corruption.



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## 1. Introduction

Having reviewed the statistics of companies' bankruptcies with state participation, presented at the Interdepartmental portal for state property management, and the data of the Spark-Interfax system, one can make a disappointing inference – the state is ineffective as owner and manager. This is especially clearly demonstrated in the field of road construction by the percentage of bankruptcies and the number of lossmaking road assets.

By the end of the 90s, the Federal Road Agency, the federal executive authority in charge of the road sector, had in its jurisdictional subordination about 150 unitary enterprises involved in the construction and maintenance of roads. Now, the majority of them are corporatized, but, as a rule, they are either lossmaking or of very low profitability.

Thus, according to the Interdepartmental portal for state property management and SPARK, of the 91 public limited companies (PLC) under state control, 63 (69%) have various financial problems: dramatically reduced revenue, losses, tax arrears (The Federal Agency for State Property Management, 2015; The Federal Agency for State Property Management, 2016; Spark-Interfax, 2019). Separately, we should note those companies which are at different stages of bankruptcy. In 10 (11%) road enterprises there are bankruptcy proceedings opened, in 5 (5%) companies there are monitoring procedures and external control introduced. There are 6 (7%) companies in the process of judicial consideration to be subject to bankruptcy proceedings. 35 companies are closed down, another 4 companies do not conduct any financial or economic activity, and only 7 companies were sold, and the state received some income from their privatization.

## 2. Problem Statement

The mechanisms of corporate management in the road sector are clearly seen on the example of one of the largest enterprises Kamchatavtodor plc. 83 years ago, in October 1932, a regional administration for construction and operation of highways was created in Kamchatka, and since 1973 it has been known as Kamchatavtodor. All the roads in Kamchatka have been built by the specialists of this particular company. The employees of Kamchatavtodor are engaged not only in the construction of new roads, but also in repair work and operation of the existing ones. At the beginning of 2015 the company employed 380 people.

Kamchatavtodor plc is a strategic company of the Kamchatka Territory, the Russian Federation owns 100% of its assets, the cost of property is estimated to be around 1 billion of rubles, and it is the only state-owned enterprise that ensures the proper condition of roads in all of the Kamchatka Territory. Despite all this, the company is introduced with bankruptcy proceeding, and therefore, a sale of state assets for a trifling sum is possible.

Since its corporatization in January 2012, the company has already changed 4 directors. It has regularly delayed wages payments, for which the management has been repeatedly charged with administrative sanctions. These delays also indicate the inefficient use of resources and the low quality of finance management.

Since Kamchatavtodor's incorporation, its financial indicators had been falling dramatically year after year, and in 2014 the company finally became lossmaking. In April 2015, by the court decision, supervision procedure was introduced; in April 2016 bankruptcy proceeding was started.

All the above came about as a result of embezzlement, misappropriation, fraud, abuse of power, negligence of the former top management (sole executive office, chief accountant, the board of directors, audit committee), as well as of nonfeasance of supervisory authorities. Among other things, several contracts were signed that caused damage to the company. For example, the company lost the right to collect debts from some contractors (Pozdnyakov, 2015).

### **3. Research Questions**

At present, the Board of Directors of Kamchatavtodor plc has performed significant work on identifying the violation facts, all the collected materials have been transferred to law enforcement bodies, several criminal cases have been initiated against the top management, which has brought the company to bankruptcy with their actions. Almost all the gathered and provided data have been confirmed by the prosecution authorities.

On behalf of the national government, the Federal Agency for State Property Management suggested transferring the company's assets to the regional property, but the governor refused, recalling the difficult financial situation of the company and understanding that in case of bankruptcy, 380 employees and their families would be left destitute.

We note that the situation with Kamchatavtodor plc is just one case among many. The data provided above were retrieved from the Interdepartmental portal for state property management, which shows that the Federal Road Agency Rosavtodor, together with the Federal Agency for State Property Management, controls a series of road-operating companies across the country. Among them, 25 are in various stages of bankruptcy proceedings or do not conduct any financial and economic activity.

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

In this case, the estimated losses exceed several billion rubles in the form of tax arrears or lost in privatization (selling to a potentially efficient owner), and already thousands of people across the country are left without means of subsistence. Moreover, all this is happening simultaneously with the Russian President's orders on the need of doubling the volume of road construction and improving the quality of their operation.

"Administrative Regions should closely engage in putting roads in order; for this purpose, additional resources are being allocated aiming to fill in the road funds", said the President of the Russian Federation in his Address to the Federal Assembly (Administration of the President of Russia, 2014).

As stated in the list of orders the head of state gave as the outcome of a meeting of the Commission discussing achievements of targets of social and economic development of the Russian Federation, May 7, 2015, by 15 July the Government should design an action plan aiming to reduce the mortality rate caused by traffic-automobile accidents. He also called for "increased responsibility of both the federal executive authorities and the executive authorities of the Administrative Regions of the

Russian Federation over the improvement of road sites known to have the highest number of road accidents" (Administration of the President of Russia, 2015).

We have to note here that road construction belongs to strategically important industries, and, especially in the times of crises, road and infrastructure projects have often acted as a driving force pulling the economy to a new stage of development.

As a result, questions arise to the Russian Federation Ministry of Transportation, the Federal Road Agency Rosavtodor, and the Federal Agency for State Property Management. How effectively do they monitor and control the state property, if we face such a great number of bankruptcies (including deliberated bankruptcies, as in the case of Kamchatavtodor) and how are the President's orders being executed? Another serious problem lies in human resources management of the directors boards, where the state, represented by the Federal Road Agency and the Federal Agency for State Property Management, introduces its representatives – officials, who are often yesterday's students having neither time nor competence nor enough professional knowledge to effectively manage the assets.

## 5. Research Methods

The problem's obvious solutions lie on the surface – either selling at market price through privatization to effective private owners, or appointing qualified non-bureaucratic managers with strategic thinking through transparent competitive selection. If these decisions are not executed quickly, the industry should expect a series of bankruptcies and devaluation of state assets.

There exists a solution which is more difficult to implement as it implies legislation changes, but if realized, it would be able to solve the problem at the global level.

We suggest creating self-regulatory organizations (SROs), to which certain functions of state property management could be transferred on competition principle. Such organizations can be founded on the basis of the leading professional associations of independent agents and directors, such as the Association of Independent Directors, the Association of Corporate Directors and Managers, Russian Union of Industrialists and Entrepreneurs, etc. There exist successful implementations of functions transfer from the Federal Agency for State Property Management to outsourced agents, for example, the transfer of assessment and sale of state assets to the Auction House of the Russian Federation.

## 6. Findings

The Auction House of the Russian Federation (AHRF) is the first auction platform created for sale of state and private property throughout Russia. AHRF was established in accordance with the decree of the Government of the Russian Federation, No. 1186-r, August 19, 2009. The organization is an open joint stock company (public limited company). The main founder of the company is Sberbank of Russia. Up to date, the company has sold assets for the total sum of 128.5 billion rubles (The Auction House of the Russian Federation, 2018), and almost all major state-owned assets are evaluated and traded with the assistance of AHRF. This case serves as a quite successful example of transfer of non-core functions of ministries and agencies to a private company possessing greater competences and opportunities for their realization.

Moreover, it would be possible to consider transferring management functions over non-strategic assets of the Russian Federation to the self-regulatory organizations in the field of corporate management. In this case, the remuneration for management and further successful privatization of a company could be paid not only from net profit, as currently for the members of boards of directors, but also as a percentage of the total sum received from an asset's sale. The choice of an SRO could be made on a competitive basis, with the participation of all the ministries and departments concerned.

In the Russian Federation, the foundation and activity of a self-regulatory organization, its the main objectives and tasks, are described by Law No. 315-FL of 01.12.2007 (as amended on 25.06.2012) "On self-regulatory organizations" (2007), as well as by federal laws regulating the corresponding type of activity. The subject of self-regulation is entrepreneurial or professional activity of the entities incorporated in self-regulatory organizations. The main ideologist of SROs foundation in the Russian Federation is V.S. Pleskachevsky, the co-chairman and member of the Board of Directors of the Russian Union of Industrialists and Entrepreneurs (Finam, 2003).

A self-regulatory organization is a non-commercial organization that is established in conformity with the Civil Code of the Russian Federation and the Federal Law of January 12, 1996, No. 7-FL "On Non-commercial Organizations" (1996), providing its compliance with all the established requirements of the present Federal Law. These requirements include the following.

- Incorporation in the self-regulatory organization of no fewer than twenty-five enterprises or no fewer than one hundred subjects of professional activity of a certain type, unless the federal laws ascertain otherwise;
- Standards and rules of entrepreneurial or professional activity, indispensable for all members of the self-regulatory organization;
- Self-regulatory organization bears additional property responsibility, indispensable for all its members, towards consumers of produced goods (works, services) and other individuals as directed by article No. 13 of the present Federal Law.

A non-commercial organization acquires the status of a self-regulatory organization from the moment of being recorded in the state register of self-regulatory organizations, and loses the status with the exclusion from the register.

The main idea of SRO is to transfer management and supervisory functions over the activities of subjects in a certain field from the federal government to the companies themselves. By doing so, the government could rid of extra functions, and, therefore, budget expenses could be lowered; and the focus of government supervision could be shifted from activity supervision towards activity's result supervision.

It is important to note that all the activity of SRO members is insured which allows the state to minimize its risks in case of occurrence of administrative errors leading to, for instance, a company's bankruptcy. The revenue base of an SRO and its members could be formed from payments for participation in supervisory committees, percentages of sums received in case of successful privatization of a company, as well as from other services provided for the state government.

## 7. Conclusion

The implementation of the scheme, proposed in this article, could bring about the following positive results: decrease in state assets bankruptcy percentage, improved transparency and efficiency in corporate management, increase in profits, and hence in dividend payments, successful privatizations leading to increased budget revenue, independent professionals (directors) in the administration of companies, personnel lift, fight against corruption. The announced results correlate well with both the May and other decrees of the President and the Government of the Russian Federation. Thus, the scheme presented in the article could be successfully implemented, albeit with some adjustments.

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