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#### THEORETICAL AND PRACTICAL ASPECTS OF MANAGING RUSSIAN COMPANIES WITH STATE PARTICIPATION

Alexander Yakovlev (a)\*

\*Corresponding author

(a) Institute of Economics of the Russian Academy of Sciences, 32, Nakhimovskiy Ave., Moscow, Russia  
gosypravlenie@yandex.ru, +7 (499) 128-46-76

#### *Abstract*

This study focuses on the management of Russian companies with state participation. Despite the historical maturity of the Russian economy public sector, scientists inside and outside the country have not pay proper attention to such an element of it as state-owned companies. Now, a number of important issues regarding the scope of this study have not been yet solved by Russian bylaws legislators and developers. One of the most significant ones is that there is no normative consolidation of the system-forming concept of a “company with state participation”. The author attributed the companies with state participation to joint stock companies and limited liability companies whose shareholders are Russia and the subjects of the federation. There are about 4 thousand of those in the country. The following governance institutions with the participation of Russia and its subjects have been identified and reviewed: regulation and partition of powers between government bodies, corporative planning, directives, directors of professionals and independent experts, state and public oversight. In Russia, there are state-owned companies with Federal and regional participation, so there is a need to manage them. Thus, there are federal and regional mechanisms for their management. In general, it can be said that 86 mechanisms for managing companies with state participation exist in Russia, one of them is federal and other 85 – regional. The presence of a large number of companies with state participation in Russia does not always allow each of them to pay the sufficient attention.

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## 1. Introduction

Today in Russian and foreign in scientific and periodical literature there are the works where the Russian economy state sector is viewed from a critical point of view. Some researchers criticize the state as an economic agent in general and individual components of the economy public sector e. Among the most common objects of negative judgments are companies with state participation.

Despite the rather widespread perception of the government's organizations and their management ineffectiveness, the authors of critical remarks rarely understand the mechanisms for managing state legal entities or conduct in-depth studies of their management. Due to the presence of a similar gap in science, the main task of this study is to eliminate it.

## 2. Problem Statement

In recent years, there has been a definite tendency in Russia on the increased attention to companies with state participation from its shareholder (founder). This, in turn, led to a demand for the search and implementation of effective institutions and mechanisms for managing state-owned companies. The subjects of the Federation and the Russian Federation in general formed their mechanisms for managing companies in different ways. Each of them has both its own strengths and weaknesses. In this regard, these and some other border issues will be the subject of this paper.

## 3. Research Questions

To achieve the goal of the study it is necessary to consider the following questions.

First of all, it is worth concentrating on giving a definition to the object under study. To date, there is no legislative consolidation of the concept "a company with state participation" or derivatives of it (Yakovlev, 2018). There is no clear understanding of the content of this category among scientists. In scientific circles, there are lasting debates concerning the exact content of this concept

The next area of study of this work will be the institutions of companies with state participation management, which are the pillars on which the mechanisms for managing state companies are built. Despite the difference in the managing institutions on Federal and regional levels, the administration of state-owned companies is common. The importance of institutions in the management of state-owned companies proves the importance of institutions in public administration in Russia in general (Zeldner, 2016), is not so prominent in other countries where corporate governance has developed (Godlewska & Pilewicz, 2018), including Australia (Mees & Smith, 2019) and African states (Kilian, 2019).

By virtue of the fact that in Russia stocs and shares may be in state, municipal and private ownership, including belong to the Russian Federation and subjects of the Federation, the country has federal and regional mechanisms for the management of state-owned companies. Their analysis is one of the objectives of this study.

Today, the Russian Federation acts as a shareholder in approximately 1.5 thousand companies, including PJSC Sberbank, VTB Bank (PJSC), PJSC Gazprom, etc. About 2.5 thousand account for companies more falls on the Russian regions.

The presence of a large number of companies with state participation does not always allow giving the necessary attention to each of them. This affects the performance of some of them. Among the most common reasons for the inefficiency of state-owned companies are excessive costs as a result of their purchases (Smotrinskaya & Shuvalov, 2017) and the lack of clear regulation of procurement procedures (Osipov & Smotrinskaya, 2016).

State companies, being an economy public sector integral part (Lenchuk, 2016), have a significant impact on the its operation success. Due to the fact that the Russian economy can be classified as mixed (Rubinstein, 2018), in addition to the development of the public sector in the country, it is necessary to provide similar opportunities for the private sector. It is possible to use in this context the tools of public-private partnership (Konishchev, 2017), innovative development (Dorzheva, 2018) and strategic planning (Beregova, Shchupletsov, & Skorobogatova, 2018). Only such an approach is able to give the desired positive result.

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

The purpose of the study is to analyze the theoretical and practical aspects of the Russian companies with the Federation's and the subjects' participation management. To achieve this goal it is supposed to study the managing federal and regional companies' experience, to compare the experience, to identify the existing features.

#### **5. Research Methods**

The study's methodological basis consists of general scientific methods, primarily: analysis, synthesis, comparison, induction, deduction, grouping, generalization, analogy. The author also applied structural-functional and systemic methods.

In the development and justification of the proposed provisions, modeling and forecasting were applied.

The theoretical basis of the work consists of the fundamental concepts contained in the scientific works of leading Russian and foreign economists and specialists in other humanitarian fields.

#### **6. Findings**

In Russia, the management of state-owned companies, before the current status quo, passed through a certain evolutionary development. Among the stages of this development there was the privatization stage, accompanied by the massive privatization of state-owned enterprises (Yakovlev & Kopeikina, 2017), the majority of which were taken over by private hands. From the fragments of the once unified state property management system in post-Soviet Russia, management mechanisms were constructed for federal, regional and municipal organizations.

Due to the fact that different officials having, at times, significantly different views on the management, were engaged in the creation of mechanisms for managing companies with state and municipal participation, the results were completely different.

The basic concept in this study is “a company with state participation”. Despite the significant influence of state-owned companies on the processes occurring in the economy, this term found legal consolidation neither in Russian laws nor in by-laws. Scientists also did not reach a consensus on the content of this category. Some authors consider it expedient to classify as state-owned companies only the organizations having the majority interest in the authorized capital, others admit that obtaining the blocking shareholding is enough for a state-owned company.

The author of this study adheres to the position that the use of the wording “with state participation” is permissible for all companies, who have at least 1 share or there is any share in the authorized capital in state ownership. The article will also use the term “state-owned company”, which has the same meaning as the concept of “company with state participation”.

Thus, according to the author, a state-owned company is a joint-stock company or a limited liability company whose shareholder (participant) is the Russian Federation and (or) a subject of the Federation.

There is another issue facing a state-owned company researcher. It is the widespread identification of federal property management and the constituent entities properties.

Sometimes they also include the municipal property management, which cannot be attributed to the state, since is an independent form. Such a semantic “bonding” leads to a serious distortion of the real state of affairs. In particular, regional and municipal ones are ranked as federal state companies.

Modern Russian management companies state company, which include the following:

- regulation and division of jurisdictions between public authorities;
- internal planning;
- directives;
- professional directors and independent experts;
- control triumvirate (parliamentary control, state audit (control), public control).

This list of institutions is not exhaustive, but it is these institutions that are the key to the effectiveness of the state-owned companies’ management system in general. Let us consider them in more detail.

As noted earlier, companies with state participation function at the federal and regional levels, and, accordingly, federal and regional bodies can take part in their management.

Speaking of powers’ division between public authorities for the management of companies with state participation, we can distinguish three key approaches.

The first is the sectoral approach. The executive body gets the empowerments to manage companies and it is responsible for the relevant sphere of economic activity. For example, agro-industrial state-owned companies are managed by the Ministry of Agriculture, transport-transport ministries, etc.

With a centralized approach, a specialized state property management body obtains all state-owned companies management functions. At the same time, sectoral authorities do not participate in the management of companies with state participation, and their influence on them is limited to government regulation of the relevant economy sector.

The third approach is based on the power-sharing principle (between the sectoral government and the specialized one). At the same time, a number of issues can be solved jointly (for example, according to the personal composition of the management and control bodies).

Today, in Russia in general, there is a mixed approach to the management of companies with state participation. The Federal Agency for the Management of State Property (Rosimushchestvo) acts as a specialized state property management body in the Russian Federation, while in the subjects of the Federation there are regional ministries, committees and agencies of property relations. As a rule, in addition to individual companies, the rights of a shareholder (holding general meetings of shareholders, election and termination of powers as a member of the board of directors and the audit commission, general director, approval of the annual report, distribution of net profit, etc.) are exercised by specialized government property management bodies. In turn, sectoral public authorities have their own competence (including the development and implementation of state policy in the relevant field, coordination of the personal composition of companies' management and control bodies, a statement of position on the inclusion (exclusion) of societies from privatization plans) and created both at the federal and regional level.

The next is the corporate planning institution, manifested in the strategic documents approval by the governing body consisted of the directors' board (supervisory board). The most common are long-term and medium-term development programs, calculated respectively for 5 years and 3 years. They analyze the market for goods and services, identify the company's competitive advantages, define the organization's goals and objectives for the relevant period, lay down key performance indicators, consider internal and external risks and threats, etc.

An important place in the federal and regional mechanisms for managing companies with state participation is occupied by the institution of directives.

Directives are written instructions issued to state representatives by an authorized body. These include: members of directors' boards who are professional attorneys (they will be discussed below); civil servants participating in general meetings of shareholders and meetings of participants in limited liability companies on behalf of the Russian Federation or a subject of the Federation.

The institution of professional directors and independent experts in the management of companies with state participation is of no less importance.

Professional directors include physical entities, not civil servants, who are invited by the Russian Federation or a subject of the Federation as their representative in the company management body. Professional directors should be specialists in the field of corporate governance, having managerial experience and familiar with the industry specificity of the company whose board of directors (supervisory board) they are nominated for.

In addition to the directors' boards, there is a practice of physical entities, who are not government employees, involvement with the company's control body - the audit committee, which they call independent experts.

There cannot be management without control, and state-owned companies are no exception. Currently, the control organization in the management of Russian companies with state participation includes three main components: parliamentary control by the Federal Assembly of the Russian Federation; state audit (control), which is carried out by the Accounts Chamber of the Russian Federation and regional control and accounting bodies; public control by public chambers.

## 7. Conclusion

The analysis carried out in this work led to the following conclusions.

In Russian regulatory legal acts there is no fixation of the concept “company with state participation”, which required the author to derive his own definition.

There is a mixed approach to the state-owned companies’ management in Russia – powers and functions are distributed between specialized state property management bodies and sectoral ministries, agencies and services. At the subjects’ level in the Russian Federation and individual regions, their own governing bodies for companies with state participation are formed. A system of institutions has been created that can provide solutions not only in the state-owned companies management, but also in public administration in general.

The existing mechanisms for managing state-owned companies are still far from ideal.

This imperfection can be proved by an example, when state-owned companies are bankrupted because of the absence of a general director in organizations that has the right to sign financial and other documents, which makes it impossible to conclude contracts, make payments, or pay salaries.

In practice, such situations occurs when resigning one general director and not filling the vacancy by another one because his candidature cannot be coordinated by various executive bodies. As a result, the involvement of a large number of civil servants from various authorities in the management process leads to the lack of proper operational control over the results of financial and economic activities, which, in turn, leads to low efficiency of economic activities.

This study can be useful both for Russia and for other countries ,as the presence of the public sector in any form of the economy and companies with state participation in most countries of the world.

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