

Problems of corporate governance and control under unstable capital risk in modern Russia at the beginning of the twenty-first century

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Abstract—In the conditions of a deep and large-scale transformation in the Russian economy, caused both by scientific and technological progress and its systemic and structural transformations carried out in the process of forming a market economy and political democracy, the issues of improving the management system are raised before the Russian economic science. At the present stage, the management system of large business groups is constantly being updated. Vertically integrated holding companies are developing, united by a single planning, financing, coordination and control mechanism. Issues of optimizing corporate governance in an industrial holding, while ensuring a rational level of independence of subsidiaries, are becoming especially topical.

The significant influence of factors of uncertainty and economic risk, as well as the insufficient knowledge of a number of methodological aspects of the development of big business in Russia, make it necessary to search for new forms and methods of corporate management that are adequate to the changing conditions of the business environment. The aim of the study is a comprehensive study of theoretical and methodological issues and the actual practice of managing corporate industrial structures, as well as the development of ways to improve the performance of their functioning in conditions of high economic risk in Russia at the beginning of the twenty-first century. In Russia, the national model of corporate governance is at the stage of formation, it has not yet really worked, the management mechanisms are idle, not finding sufficient use for themselves in the new environment. So, corporate governance in Russia has already managed to face a number of problems, for the solution of which certain measures need to be applied. Achieving the goal of creating an effective business

requires defining the principles of building a company and preliminary modeling of the main operational processes.

Keywords—*Unstable markets, demand structure, influence factors, scenario planning, performance indicators, business model, corporate management, strategic decisions, the anthropological factor*

I. INTRODUCTION

The core problem of modern society is the widening gap between the world of the rich and the world of the poor, which is intensified by the processes of globalization and transnationalization [1]. One of the factors of this gap is the operation of the mechanism of corporatization processes and their interaction with the public sector of the economy.

In economic theory, the role of corporate structures is evaluated differently. Some scientists believe that the corporation is the basis for building the country's economy, establishing the basic proportions of effective development, while others argue that the negative trends in the activities of "mega-associations" cause significant damage to the development of civilization [2].

In the neoclassical economic theory for a long time the subject of economic activity in the form of an enterprise was considered as an isolated legal and economic organization that transforms the initial resources in the production process into finished products. The enterprise model was determined by the

production function, which expresses the dependence of the production results on the number of factors spent. The main criterion of success in the market in this case is the achievement of production efficiency through a combination of production resources, cost minimization and profit maximization [3].

The neoclassical school considers the economic model of perfect competition and the free market model, consisting of an infinite number of economic entities operating independently of each other with full information about the structure of demand and supply, as well as complete freedom of market circulation. The most important institutions of a market economy are enterprises, firms and a system of contractual relations, including the norms and rules of interaction between economic entities, drawn up by contracts between market participants [4].

Modern economists consider the management of structures, applying institutional theory, on the basis of general and particular universal provisions of management; based on the theory of accomplices, determining the obligatory accountability of the accountability of company owners to all interested external and internal counterparties; on the basis of agent theory, based on the use of mechanisms and tools of corporate relations, taking into account agency costs.

In addition, modern theories of corporate governance consider the main component of the economic system as a kind of economic integrating object of socio-economic processes of interrelationships in time and space, using systemic multiplicative effects that determine the emergence and formation of modern corporations [5].

The concept of "corporation" is interpreted as "an association, a community of persons united by a community of professional or class interests, or the most common form of management of large-scale production" [6]. The scale of activity and the seizure of single-type product markets link the notion of corporation with monopoly. In dictionaries a corporation is defined as "one of the forms of monopoly associations" [7].

The concept of "corporation" is consonant with the concept of "integration". Integration - interconnectedness, system connection into a single whole, rapprochement, association of enterprises, industrial productions, regions or countries. We can distinguish the integration of vertical, horizontal, diagonal, conglomerate on micro - and macro levels.

Before considering the development trends of Russian corporate governance in the near future - the beginning of the twenty-first century - is necessary to consider the ways of possible painless entry of corporations into the system of normal corporate governance. To do this, top management of corporations have to perform a large amount of versatile, multi-faceted work based on the requirements of modern management, marketing, and business. This work consists of the following main steps:

- strict definition of the goals of the corporation and ways of motivating its owners
- restructuring of the corporation to the level of self-governing structures under the control of owners;
- the choice of the organizational structure adequate to the goals: production, sales, innovation, marketing;
- development of uniform principles of the corporation in the form of a mission, philosophy or other basic document;
- changing the philosophy of remuneration of staff, especially top managers.

Turning from the Marxist principle of "fair pay for work" to pay, taking into account the real contribution of each employee both in obtaining current profits and in forming capitalized corporate profits, they face the problem of the personal interest of shareholders. If the stake is significant, then the influence of the shareholder is weighty in the decision-making and the share of profits distributed by the end of the fiscal year is significant. If the stake is insignificant, then the motivation shifts to the area of receiving high pay for the results of the work. Therefore, the real wage system in corporations must take into account three components:

- direct labor remuneration for work performed on the basis of a contract;
- income from the share of shares for the fiscal year;
- additional payments and benefits (bonuses) determined in each corporation by internal documents.

With such a scheme of remuneration

on, top managers should receive a total high income, stimulating intensive work, increasing the share of capitalized profits belonging to them, and expanding social benefits and guarantees in the corporation. This way will naturally remove the contradictions existing in Russia between the remuneration of labor of top managers of corporations and the results of the work of the corporations themselves.

II. MATERIALS AND METHODS

The subject of the research is a set of organizational and economic instruments for managing corporations. In recent years, there has also been an increase in the rate of dividend payments, which will increase the company's market capitalization. One of the conditions for increasing the value of a business is its expansion; therefore, corporations are actively beginning to resort to external financing of their activities, searching for external investors and entering the stock market. All this requires the introduction of generally accepted standards of corporate governance in world practice and an increase in the degree of transparency of companies.

However, in Russia this process does not affect the activities of all companies. This is due to a number of

reasons. Government regulation and economic policy are rather unsystematic and often depend on the political interests of various authorities. Until now, the threat of unscrupulous corporate takeovers has remained on the Russian market. Therefore, many companies are formally approaching information disclosure. Thus, according to a study conducted by Standart and Poor's in 2005, only 28 Russian companies disclosed more than 50% of the possible volume of information disclosure [8].

The development of the market and the openness of the Russian economy lead to a gradual increase in the attention of Russian companies to corporate governance issues. The growth of the capitalization of the Russian market, access to external financing, building long-term partnerships, business expansion are possible only if an effective system of corporate governance is created. So far, only large companies view the financial market as a source for financing their activities. In the period from 2003 to 2006, Gazprom attracted \$ 11.3 billion in the internal and external securities market, \$ 3 billion from Sistema and its subsidiaries (2.5 billion of which through primary placement of shares), JSC Russian Railways - 2.1 billion dollars. For medium-sized companies, the share of attracted resources is still small and amounts to about 5–10% of the fixed capital. However, according to experts, in the near future more and more medium-sized companies will enter the financial market, in particular, conducting an IPO on the domestic market. Thus, the leading Russian companies are actively using the tools of bank lending and equity financing to expand their activities.

III. RESULTS

To manage a corporation as an aggregate of legal entities that carry out independent but coordinated activities (often in various business areas) to achieve a common goal, in contrast to managing one company, new approaches are required. The construction of a stable system of interaction between the subjects comes to the fore [9].

In this regard, the effectiveness of the management of integrated structures is largely determined by the quality of financial management of a corporate group or the quality of financial management, and the search for new ways to solve strategic and tactical business problems [10].

From this point of view, the management of a corporation is a system of organizational and structural relations between its various elements, created for the realization of production and reproduction, streamlining of the roles, functions, forms and methods of activity for the realization of their interests. Of no small importance here is the definition of the conceptual foundations of the corporate governance system [11].

The initial ownership section ended with the dominance of banking participation in the industrial sector. The basis for establishing control by banks was a combination of equity and credit financing. At the

same time, the creation of new private corporations was accompanied by the abuse of insiders and the violation of shareholders' rights. The emergence of market relations in Russia was characterized by the creation of financial-industrial groups, which indicates the use of the Japanese-German corporate governance system. The crisis of 2015, expressed in the fall of the position of the ruble and the oil market, led to increased consolidation of ownership and control. First of all, companies focused on trade and financial operations suffered. At the same time, the devaluation of the ruble and the increase in energy prices led to the emergence of free cash in the Russian economy. The adoption in 1998 of a new bankruptcy law triggered the beginning of a new redistribution of property and the establishment of absolute corporate control was an adequate investor response in the conditions of a high degree of uncertainty of external and internal factors of the Russian corporate governance system. These events contributed to the strengthening of corporate integration trends and led to the formation of large integration business groups (Alfa Group, Interros) with the dominance of bank financing, using the tools of cross-ownership of shares, the intertwining of directorates.

Considering the ownership structure of large Russian companies, one can say that a large owner dominates in most of them. Among the minority shareholders are foreign portfolio investors represented by various investment funds and banking groups.

It should be noted a specific feature of the distribution of property of large Russian companies. From the family model of corporate governance, it follows that in most countries of the world the institution of the family serves as the basis for the concentration of property. Russian companies have never been built on this principle. Usually, when organizing them, the basis is a team of three to seven people who are the main owners and are closely interconnected by informal ties. They could be called affiliate firms. This form of distribution of property in the Russian conditions is most prevalent. According to estimates in the economic literature, at present the share of the largest shareholders (primary owners) in the capital of Russian industrial enterprises is on average 35-40%.

Another trend of the Russian economy is the strengthening of the role of the state, which is actively engaged in entrepreneurial activity. Government control over an increasing share of the corporate sector is spreading. Such companies with state participation as Rosneft, Gazprom, Vneshtorgbank actively carry out operations in the financial markets.

The corporate governance system in Russia does not correspond to either the Anglo-Saxon, or the Japanese-German, or the family management model. It is not possible to clearly characterize the distinctive Russian model. This is due to the high degree of uncertainty in the external and internal environment of the corporation and the imperfection of Russian legislation. However, the active use by the large

Russian corporate structures of the elements of all existing corporate governance models suggests that, most likely, the further development of the corporate governance system will not focus only on one of the existing business models [3].

Thus, a situation has arisen in Russia when none of the types of corporate governance systems dominate, and the national model of corporate governance is in the formative stage.

IV. DISCUSSION

At the initial stage of the formation of market relations in Russia, the formation of corporate entrepreneurship, and after that the formation and approval of the system of corporate governance and its principles, faced with a number of fairly serious objective difficulties [12]. We are talking about such well-known factors as breaking ties between enterprises that previously belonged to a single national economic complex, the complete lack of market infrastructure, the technical and technological backwardness of many large enterprises, and lack of preparation or even lack of management personnel able to work effectively in market conditions, lack of sufficient amounts of accumulated capital, the imperfection of the financial system of the country [13, 14].

In the 1990s, Russia began a massive privatization process, which led to the creation of a sufficiently large number of joint-stock companies. The reform took place with a focus on the Anglo-Saxon model of corporate governance [15]. It was assumed that during the privatization of state property a mechanism of control and regulation on the part of the stock market would be gradually created. By 1997, 16 licenses and more than 1.5 thousand professional securities market participants had received licenses. At the end of 1997, 17 Russian companies entered the world market, issuing American depositary receipts [16].

In general, in Russia, among the key features of the development of a national model of corporate governance, it is necessary to highlight:

- the permanent process of redistribution of property in corporations;
- specific motivations of many insiders (managers and large shareholders) related to the control of financial flows and the “withdrawal” of corporate assets;
- weak or atypical role of traditional “external” mechanisms of corporate governance (securities market, bankruptcy, market of corporate control);
- a significant share of the state in the share capital and the resulting problems of management and control;
- federal structure and active role of regional authorities as an independent subject of corporate relations (and, a subject acting within the framework of a conflict of interests - as an owner, as a regulator through administrative levers, as a commercial agent);

- ineffective and selective (politicized) government enforcement (with relatively developed legislation in the field of protecting the rights of shareholders) [17].

Considerable interest in the identified problems and peculiarities served as an incentive for rating agencies, which began to carry out relevant assessment activities.

One of the significant risk factors are the problems of intercultural communication, which indicate the presence of a large distance “our” / “other” [18, 19]. Thus, the anthropological factor affects economic stability.

V. CONCLUSION

The risk management system consists in the sequential execution of the main stages:

- 1) drawing up as far as possible an exhaustive list of factors that may adversely affect the activities of the enterprise or its development;
- 2) the identification and analysis of the causes that can cause the appearance of negative factors;
- 3) an assessment of the consequences to which the action of negative factors, taken separately or in various combinations, may result;
- 4) assessment of the likelihood of adverse situations (individually and in combination);
- 5) ranking of the identified risk factors according to the degree of threat posed to the activities and development of the enterprise;
- 6) the creation of a system of continuous monitoring, which signals in advance about the adverse changes in the monitored indicators;
- 7) development of a set of measures aimed at reducing the likelihood of adverse events and reducing their impact on the company's activities;
- 8) a scenario analysis of the development of unfavorable situations and the development of a system of anti-crisis measures automatically put into effect when the observed indicators reach predetermined threshold values.

Whatever action is taken, it is necessary to assume that the worst possible scenario will come true, and the company will face a real crisis. But if in advance to develop a series of measures to reduce the consequences of such an event, one can hope to get out of this situation with minimal losses [20]. Practice shows that in these circumstances the issues of a catastrophic lack of resources (human, informational, material), as well as the ineffectiveness of the previous, “pre-crisis” control algorithms, are particularly acute. Here are some possible solutions:

- 1) personnel reserve.
- 2) resource reserve;
- 3) crisis management;
- 4) operational headquarters.

Detailed information on each of the solutions is presented below. The use of the institute of deputy key managers, the creation of a list of all the main functions of a manager, the development of a program, according to which every next week the deputy will be supervised and supervised to perform them one by one in place of his boss. As a result, in six months or a year, this deputy, if necessary, can quickly and with minimal loss of effectiveness take the place of his boss. If this practice is extended to the entire company, it is possible to form a loyal personnel reserve for both the systematic development of the business and contingency. The same measure will raise the motivation of the leaders of all levels [21].

Preparing in advance a list of what may be an urgent need, and planning where to take it, is to reserve resources. In a crisis, when management will have to solve dozens of burning issues at the same time, the obvious solutions lying on the surface may go unnoticed.

The largest shareholder - the state - continues to own shares in many companies, including the main strategic enterprises and natural monopolies. As a rule, analysts consider privatization to be the main reason for the rather low quality of corporate governance in Russian companies. However, there are other factors that have paved the way for violations that have occurred in the last decade.

- Ineffective implementation of corporate governance principles due to corruption in the judicial system and law enforcement agencies. There are not enough qualified managers in Russia and there is no developed financial market capable of putting pressure on companies, therefore the mechanism ensuring compliance with the rules becomes of paramount importance for the implementation of an effective system of corporate governance. However, the requirements of shareholders seeking legal assistance are often left unsatisfied: legal procedures are delayed, the qualifications of judges are low, the judicial system is affected by corruption.

- In addition, the Federal Commission for the Securities Market (FCSM) lacks financial resources and does not have the authority to punish violators with serious fines (currently, the maximum fine is about \$ 5,000).

- The difficulty of organizing collective action. The country has a high concentration of ownership: the lion's share of the share capital belongs to insiders, and external shareholders do not have enough power to follow the business process. Investment funds, which, like banks, are ideal candidates for the role of active external investors and champions of effective corporate governance, have not yet taken on this mission (and do not aspire to this). In fact, in Russia there is a strong shortage of consistent fighters for the introduction of civilized corporate governance (such as American institutional investors, for example, the CALPers pension fund and the TIAA-CREF mutual funds).

- Lack of experienced managers. Top managers of Russian companies are the most powerful group of owners (exceptions are natural monopolies and defense industry enterprises). This is especially true for firms operating at the regional level. The chairs of many managers with large blocks of shares are indeed reliably protected from encroachment, since the supervision of external investors is either weak or not at all. As a result, such owner-managers carry out transactions primarily in their own interests and do not seek to put an end to old habits or introduce effective methods of corporate management in companies.

- Thinking old type. Under the Soviet planned economy, business leaders were directly subordinate to state bodies, so now it is difficult for managers to get used to the need to report to the board of directors. In addition, their activities are usually aimed at obtaining short-term personal benefits, and not on developing plans for long-term strategic development, which is impossible without complex and costly restructuring. Finally, they continue to adhere to the traditions of powerful centralized leadership.

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