Results of regulation of state agricultural companies activities in Russia

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Abstract. In the structure of modern Russian economy state play a key role in many spheres. Agriculture is one of them. The Russian Federation is the owner of the largest agricultural companies. Russian regions are also shareholders of a few hundred joint-stock companies in agriculture sphere. A big number of state agricultural companies are ineffective. One of the reasons is the existing regulation system. It's far from ideal and generates a number of problems. They have different forms, but all lead to a low profit value or even to bankruptcy. This research is one of few scientific papers on the theme of state agricultural companies in Russia.

1. Introduction

Russian economy during post-Soviet period has undergone a significant number of changes. Some of them had irreversible consequences for certain industries. Agriculture sector had a hard time. Thousands of agriculture economic entities went bankrupt. Most of them were state unitary enterprises or companies.

Nowadays there are a few hundred state agricultural companies. Some of them are famous and play an important role in Russian economy. Among them is JSC "United grain company". It's the largest Russian purchaser and seller of grain. The other example is JSC "Foreign economic corporation "Prodintorg". This state agricultural company is engaged in export and import of food products. JSC "Rosagroleasing" is a joint-stock company influencing the entire agriculture sector of the economy. This company leases different types of equipment to a big part of agricultural companies in the Russian Federation.

Also we can find holding type state agricultural companies. This form of organization gives them a number of advantages [1] which they often use. An example of mentioned company type is JSC "Head centre for reproduction of agricultural animals". It has 25 subsidiaries in all federal distrists of the Russian Federation. Subsidiaries are authoritative breeding enterprises in many regions. They sell seed of high value bulls in most parts of Russia.

The owner of mentioned JSC is the Russian Federation. The central government controls 100% shares of all entities except JSC "United grain company". In this joint-stock company in federal property is 50% plus one share.

In a large part of Russian regions there are agricultural companies. In most of them is possible to find 1 or 2 this type of economic entities. A positive experience of their functioning is in Ulyanovsk
region, the Republic of Tatarstan, Yamalo-Nenets autonomous region and in some other parts of the country.

Despite the existence of positive practice, in general, agricultural state companies don’t function very efficiently. Some of the reasons lay in regulation.

2. Materials and methods
The declared topic rarely becomes a subject of research for Russian scientists. There are much more papers on the theme of general [2] and institutional [3-5] problems of the economy, various aspects of companies’ activities [6-9], agriculture sector [10-12].

Today there are separate works [13] and information resources [14] dedicated specifically to state companies. Even it’s possible to find individual articles on the theme of state agricultural companies [15].

One of the main tasks of this work is to close the research gap in academic papers on the raised theme.

To achieve research goal the author has chosen to use general scientific methods.

3. Results and discussion
The most importante category of current research is "state agricultural company".

Russian federal and regional legal acts don’t contain it. That sets the task of revealing the missing concept.

From the author’s point of view it’s a joint-stock company or a limited liability company with a state as a shareholder or a owner. Behind the concept of the state can be the Russian Federation or Russian region.

Federal and regional executive bodies independently build a system of governance for their companies. This system is based on legal acts. The federal center and Russian regions adopt those acts. Some times they have a lot of differences.

The mane federal act is decree "On the management of federally owned shares of open joint-stock companies..." (2004). In Moscow region it’s regional law "On the management of shares and shares in the authorized capital of business entities..." (2011). In Moscow city the most important is decree of the Russian’s capital Government "On the procedure for interaction of the executive bodies of the city of Moscow in exercising shareholder rights ..." (2007).

Those acts with methodological recommendations together form a set of legal acts regulating activities of state agricultural companies. They consist of norms and restrictions. Some of them hinder and slow down decision-making and the functioning of a legal entity.

Among the common results of regulation of state agricultural companies activities are the following.

Today in state property is 2K companies situated in all parts of the country. Governing such a number of legal entities requires a huge amount of qualified personnel. Most of state agricultural companies have boards of directors of 5 man and revision commissions of 3 members. That means the Russian Federation and regions need 16K competent persons to close these positions. The Russian Federation and regions actively use civil servants in those bodies. Often there are 5-7 or even more organizations for each employee. Given the general high workload of civil servants they aren’t always able to pay due attention to companies. This leads to a decrease in their work quality and bad financial results for companies.

To solve mentioned problem for a decade the federal center and some regions use a practice of involving professional directors and independent experts in governing state companies. Generally this practice is positive. But some persons approach the performance of their duties formally. This decreases the positive effect of civil servants replacement.

Russian public service is characterized by a constant change of personnel. The situation is more acute in cities where salaries of civil servants are inferior to income in commercial organizations. Former civil servants refuse to serve as board members or revision commission members after moving
to another place of work. Sometimes, 2 of 5 board members refuse to fulfill their duties. The remaining 3 have to take the entire load.

A formal approach often prevails in the activities of state companies. A large number of requests for information with short deadlines lead to employee fatigue from this. Other documents aren’t well prepared, including corporate. Members of boards of directors also don’t always have a deep understanding of the content of corporate documents. One of the reasons is their low motivation. It will be discussed below.

Corporate documents don’t correlate between themselves. For example, long-term for 5 years and medium-term for 2-3 years development programs or development programs and key performance indicators. Often budgets and results for financial years differ significantly. This allows the management of the company to generate the proceeds that he considers necessary and to spend the funds.

The established practice is that a significant number of CEOs aren’t interested in the performance of companies. The result is low profit.

One of the main reasons of described above is distorted motivation of general director. The CEO is a person who carries out daily operations. The profit mostly depends on general director’s decisions. He’s an employee and receives a salary and bonuses. The quantity and value of most of allowances and bonuses of CEOs are determined by collective agreements. In major part of state agricultural companies general shareholders meetings and boards of directors don’t participate in determining the content of the collective agreement. For the indicated reasons generals directors don’t have high motivation for effective management.

The situation is getting much even with existing in Russia traditions of abuse. It’s much more profitable for CEOs to commit several abuses a year, than work actively all year round. In the 1st case he receive a guaranteed income. In the 2nd case he may get a bonus if there will be a high net profit. But hardworking can’t guarantee what. The choice of general directors in Russia often falls on the 1st option.

Sometimes members of boards of directors and revision commissions do the same. They collude with the CEO. Members of governing and control bodies facilitate or conceal certain acts of general directors.

An example is the case that occurred with the property of a state joint-stock company in Moscow region. The board of directors made up of only civil servants approved the land and large building selling deals. The market price of that property was significantly higher than the price at which it was sold. After the sale of these objects the entire board of directors resigned from the civil service.

Not all members of boards of directors and revision commissions commit crimes. The main part tries to work for the good of the company and in the interests of the shareholder. However, in the performance of their managerial and control functions they have to face various difficulties. For example, sometimes they aren’t presented with documents or are hindered from getting needed information.

Sometimes members of boards of directors, board committees and revision commissions work for free. If the company doesn’t get net profit all those bodies don’t get paid. Often these people work a lot, but the loss of previous years could be too large to correct the situation in a short time. Members of the board of directors in accordance with the established practice receive appointments in June. On that moment a half of calendar year pasts.

One of the techniques used by general directors to neutralize the activity of the board of directors and the revision commission is to refuse to compensate for the expenses they incurred to visit the company. State agricultural companies often attract specialists from different regions. A person can live in another part of the country. Flight and hotel accommodation can be a significant amount. Most often it happens with revision commissions. They can audit the company for quite a long time. Without paying the specified expenses from the funds of the company the general director tries to avoid the arrival of members of governing and control bodies to the territory of the organization. This significantly reduces the likelihood of detecting abuses committed by him. The main reason why it
happens is the lack of norms in the company's internal documents of the responsibility of the CEO for such misconduct.

Another common phenomenon is abuse with the state company property. The property can be rented out at a reduced rental rate or used for free.

Reported problems are encountered in companies that are in the process of privatization. The Russian Federation and regions sell shares. Such decisions are made by the Government of Russia and regional parliaments. From time to time, legal acts on the sale are issued without due elaboration. This leads to the following.

The management and members of board of directors don’t know the date of shares sale. There are only plans for the privatization of federal property and regional property for 3 years. Changes to plans are made very often. Companies have to monitor the plan themselves. State executive bodies very rarely notify organizations about this kind of changes. For example, the federal forecast plan for the privatization gets changes every 2 weeks on average. Date for the listing is rarely known. State executive bodies involved in the management of state agricultural company draw up various documents, but they are also approximate.

Most of state agricultural companies have about 3 strategic documents. These local documents don’t reflect the point concerning their future. Even a long-term development plan doesn’t conclude that kind of extremely important information. This fact disorients the governing bodies and prevents the shareholder from deriving the maximum benefit from ownership. For example, it isn’t clear how to use the profit. One way is to direct its maximum amount to pay dividends, the other is to invest in assets. The shareholder can get dividend payments in its budget or increase the value of assets. Investments in the property of companies with state participation don’t often lead to a significant increase in the price of shareholdings.

The process of privatization consists of several stages. During that period companies can go from successful to unprofitable or even went bankrupt. Approximately 10-15% of companies with state participation are in the process of liquidation. Such companies don’t have financial and economic activities. The reason is that they don’t have enough property.

Often CEOs take actions to slow down the process of selling shares. They may not prepare the documents necessary for the valuation of shares, burden property, alienate assets, create a shortage of funds, etc.

4. Conclusion
The conducted study allowed the author to come to several conclusions.

Current study is one of the few scientific papers on the theme of state agricultural companies in Russia.

There are a lot of negative consequences of existing regulation of activities of state agricultural companies.

To improve the situation the executive authorities have to do a lot of work and amend a significant number of acts.

On the other hand, no matter how well-developed institutional issues are at the legal level without their competent implementation it’s impossible to solve the existing problems in state agricultural companies activities.

Some mentioned problematic issues could be removed by using different tools and elements of federal and regional mechanisms for governing state budgetary [16-17], official offer and autonomous institutions.

A positive result can be achieved due to the synergistic effect from the functioning of regulation norms and a wide range of involved subjects of governance of agricultural companies with state participation from government to professional directors.

One of the ideas which can help to remedy problems is creation of an all-Russian discussion platform. It’s able to become a place where representatives of authorities and corporate directors could share positive experiences of solving certain problems.
The study shows how complicated the topic is. This fact forces the author to continue research in the nearest future.

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