Joint-Stock Property Governance in State-Owned Companies in Conditions of Uncertainty

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Abstract. The purpose of this study is to effectively manage joint-stock property in state-owned companies in conditions of crisis uncertainty. The tasks are to study the issues of optimizing the management of joint-stock property, improving corporate governance mechanisms, including the use of automated systems in state-owned companies. The study uses both theoretical (analysis, synthesis, modeling) and empirical research methods (the use of existing experience in managing joint-stock property in state-owned companies embodied in reference sources; experience in managing specific enterprises). The main result of the study is the conclusion on the necessity to optimize and automate the joint-stock property management in state-owned companies, in which directive management methods are replaced by corporate ones, and the process of making managerial decisions is simplified through digitalization.

Keywords: Corporate governance • Directive • Joint-stock property • Management automation • State-owned company

1 Introduction

The large-scale spread of the new coronavirus infection has made significant changes in the functioning of local and national markets, the activities of organizations and its employees. The phenomenon, which for obvious reasons economists were not able to predict, made a change in the life routine rhythm of almost the entire planet population. The idea that the development of the economy, management and other spheres of society occurs through fundamentally unpredictable, but changing events, which Taleb called “black swans” [9] now do not seem irrational. Therefore, the question is not to predict these events, but to be ready for them, to create the necessary flexible management structure.

The problem of effective management in conditions of rapidly changing and unpredictable circumstances is particularly relevant in state-owned joint-stock companies, the management mechanism of which is difficult to call flexible. This is due to the following:
most state-owned joint-stock companies are transformed unitary enterprises that have not had time to adapt to the corporate governance model,

- decisions on key issues of state-owned joint-stock companies are performed with the help of directives, the process of issuing which is not operational [8],

- the state has an excessive number of share blocks, the quality of management of which decreases due to volume.

It will not be easy to find positive incentives in the conditions of new challenges faced not only by Russian companies, but also by all global companies due to the coronavirus pandemic. Corporate governance tools at this difficult stage can become an important strategic advantage and help in making the right management decisions. The most important auxiliary role in this will also be played by informatization and automation of management, which can not only simplify decisions, but also minimize the negative impact of the human factor.

2 Methodology

This article is based on a large-scale study conducted in 2018 and expressed in the form of an analytical report of the Center for Strategic Research “Effective management of state property in 2018–2024 and up to 2035” [7]. The authors have thoroughly studied the efficiency of the public sector of the economy as a whole and given suggestions for its optimization. The article uses these developments, as well as empirical methods (experience in state property management at specific enterprises, options for making management decisions within the Board of Directors) and theoretical methods (analysis of the situation on the Russian market, synthesis of author’s ideas with the ideas of other researchers, statistical data analysis). It offers a qualitatively new look at the management of joint-stock property in state-owned companies. In particular, the PWC report “Russian companies after IPO: A comparative analysis of quotations and liquidity”, conducted in 2016 [6], provided data on how the entry of state-owned companies to IPO (increasing the corporate governance component) and their automation have improved the management efficiency and capitalization of these companies in general.

3 Results

In the historical perspective, state-owned joint-stock companies in Russia are transformed by unitary enterprises and inherit all their advantages and numerous disadvantages. It should be noted that a significant number of authors consider unitary enterprises as an outdated form of organization that does not meet modern realities, given the complex management mechanism [2]. Practitioners also agree with this position. Thus, at the government level, the need to liquidate unitary enterprises as an organizational and legal form was fixed by 2018 [7].

The inability to completely abandon the unitary enterprise as an organizational and legal form was due to both objective circumstances (a large number, a significant
amount of assets that were not properly registered, confidential activities) and subjective circumstances (disinterest of officials and enterprises management). Therefore, the issue of unitary enterprises liquidation before 2018 was a very ambitious and therefore unrealized plan.

Funding of unitary enterprises is one of the most common methods of privatization. At the end, we get a corporate organization, but with the same management. Therefore, in the short term, new joint-stock companies are doomed to the same level of management efficiency as unitary enterprises, by the state. In this regard, the recommendation of the researchers of the Center for Strategic Research “Effective management of state property in 2018–2024 and up to 2035” on the need to privatize these organizations in one stage seems reasonable [7]. Indeed, there are no obstacles to the implementation of shares of an enterprise subject to corporatization at the same time, without additional evaluation of shares and their inclusion in the forecast plan (program) of privatization. In this regard, the sale of companies and the refusal to incur additional management costs looks like a successful solution, requiring a minor change in the legislation on privatization.

Privatization of unitary enterprises at one stage and the sale of state shares will reduce the number of such shares to the necessary minimum, but will not allow the state to completely abandon such ownership. In particular, Tanzi points out the need for governments to manage various types of organizations, not only for security reasons, but for the reason that state-owned companies insure the “short-sightedness of citizens”, and also ensure the demand meeting for specific goods and services [10]. Thus, improving the management efficiency of state-owned joint-stock companies is an urgent task. Its relevance is increasing due to market volatility, changes in supply and demand, and the population’s ability to pay caused by a new coronavirus infection. We need a management that is able to make decisions quickly in a rapidly changing environment. And in this regard, directive management becomes an obvious problem [11].

Of course, the presence of directives is a way to minimize the risks of activities in state-owned companies, but it distorts the very essence of corporate governance. The need to move away from directives is becoming more urgent in the conditions of growing uncertainty. In this regard, operational management decisions are required. These decisions cannot be achieved within the framework of directive management. In this regard, and taking into account the views of a number of researchers [2], the state may be recommended to minimize or completely exclude directives in joint-stock companies. The directives can be retained by the attorneys who take part in general meetings of shareholders. This issue is completely eliminated in companies with 100% state participation, since such decisions are made solely in the form of an order from the management authority.

As for directives to members of the board of directors, their retention does not contribute to effective collegial resolution of issues on the agenda, dilutes the responsibility of decision-makers, and is a source of corruption risks. In a fast-changing environment with limited physical interaction, such decisions cannot be made quickly. It is important to notice that such rule does not apply to independent directors for obvious reasons. Thus, in order to improve the operational management of state-owned joint-stock companies, it is necessary to exclude directives to members of the board of
directors of joint-stock companies, retaining them or minimizing them to attorneys at
general meetings of shareholders.

The above method of improving the efficiency of joint-stock property management
in state-owned companies can be considered quite innovative, but given the current
conditions of crisis uncertainty, large corporations, as leaders in creating economic
trends, need to implement and adapt new management processes. To successfully adapt
to such new management processes, it is advisable for corporations to use modern
information technologies, applying them to the processes themselves, automating
management activities. Traditionally, information systems are defined as an intercon-
nected set of tools, methods and personnel used for storing, processing and issuing
information in order to achieve the goal [5]. Corporations adhere to their principles of
working with corporate property, which are necessarily correlated with the legislation
of the Russian Federation, local documents of the corporation, and with the norms of
international law. Automation of such management usually significantly simplifies and
integrates the main tasks of corporate property governance – defining management
processes and establishing links between them, monitoring the effectiveness of man-
gagement, identifying and preventing risks, and managing the legal regulatory frame-
work of this issue.

Implementation of information technologies in the process of corporate property
governance allows creating uniform rules for data integration. Thus, it becomes pos-
sible for the corporation to use unified normative reference books and classifiers that
take into account economic, legal and technical aspects of corporate property, maintain
an electronic database and electronic document flow within the company, maintain
reference books and registers with up-to-date information and the ability to learn
historical data, monitor changes, status and parameters, form management reports on
current activities and a common vision of all management participants on the amount of
work, preconditions, restrictions and risks [4].

Since corporations currently use a huge variety of information systems, it is more
appropriate for the corporate property governance process to implement a solution that
would integrate different information technologies of the company. The standard way
of such integration can be represented as follows: corporate property of a corporation is
defined as three parts – fixed assets, business projects, and objects subject that are to be
registrated. Using a methodology (developed with the needs and capabilities of the
corporation), the above-mentioned areas are combined using a unified classification,
legal acts, and data comparison algorithms. Then, information is accumulated in dif-
ferent information systems by their type (bookkeeping system, information and ana-
lytical systems, corporate data storage systems, control and accounting systems, project
and program management systems, document management systems and normative
reference information) and is output using a BI-system (information visualization and
display system) to a single distribution platform. Thus, the manager has a tool with
which you can quickly see the results of current activities in a convenient form, conduct
a comprehensive analysis of decisions, optimize the use of resources, reduce time and
manage risks and costs, clearly distribute responsibilities among participants in the
corporate property governance process and improve the effectiveness of management
as a whole [3].
It is important to note that despite the different roles of information systems, by combining and adapting them, it is possible to develop your own corporate property governance system based on existing solutions. This will allow the corporation to bring the corporate property governance system to a high level, where different roles and functions will be integrated into a complex interconnected information system that could provide a number of goals and objectives of corporate governance [1].

4 Discussion

The “weight” of the state in the Russian economy determines the relevance of the problems raised in this article and the need for their further understanding in subsequent research. Despite the steady scientific interest in these problems and the current fairly good level of theoretical development of approaches and methodological tools for managing joint-stock property, there are still no generalizing theoretical developments in this area in the conditions of crisis uncertainty. The practice of corporate governance in state-owned companies indicates the need to create an effective model and optimize the mechanism for managing state-owned property. There is a need to develop approaches and tools to assess the quality of management of joint-stock property in state-owned companies in order to provide potential investors with the necessary information when making appropriate decisions about a particular company. The more efficient the checks and balances mechanism within the company, transparent performance and accountable actions of the management bodies of the company, the better the rights of shareholders are protected, corporate governance in general is effective, and the higher the interest of a potential investor. The relevance of this research allows us to analyze the problem of effective management solution of joint-stock property in state-owned companies as a complex independent scientific task that requires deep theoretical and practical justification.

5 Conclusion

The high share of state participation is associated with the need to combine the development of market mechanisms with state support of the economy during periods of instability and business activity decline. The significant weight (over 60–70%) of the state as a shareholder in companies of strategic industries and the financial sector of the Russian economy allows to influence the decisions made by top management, to make the most effective use of state assets in accordance with the solvable socio-economic tasks. The tendency to strengthen the regulatory component and state control creates a certain dependence of shareholders and companies top management on state structures, strengthens the position of the state in solving socially significant tasks.

The most important element for the growth of efficiency and investment appeal of joint-stock companies with state capital and increase their value along with the fundamental factors is the availability of quality management mechanism of joint property, ensure openness and transparency of the company, the protection of shareholders and potential investors.
Described in this article problems of directive management in state-owned companies that do not allow to make decisions quickly and effectively in a rapidly changing environment, should be solved using modern information technologies that will minimize or completely eliminate directives in joint-stock companies. The introduction of digitalization will allow you to make balanced and objective decisions, set real goals and methods to achieve them in the management of joint-stock property in state-owned companies in the conditions of crisis uncertainty.

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