

ARTICLE

METHODOLOGICAL APPROACHES TO THE FORMATION OF EFFECTIVE CORPORATE GOVERNANCE SYSTEM IN RUSSIAN COMPANIES

Viktoriya V. Prokhorova*¹, Alexey S. Molchan², Anait S. Basyuk³, Viktoriya E. Chernikova⁴, Inna G. Ivanova⁵

¹Department of Industrial and Project Management, Kuban State Technological University, Building 2A, Moskovskaya st., 350072, Krasnodar, RUSSIA

²Department of Economic Security, Kuban State Technological University, Building 2A, Moskovskaya st., 350072, Krasnodar, RUSSIA

^{3,4}Department of Industrial and Project Management, Kuban State Technological University, Building 2A, Moskovskaya st., 350072, Krasnodar, RUSSIA

⁵Department of Management and Marketing, Kuban State Agrarian University Named After I. T. Trubilin, 13 Kalinina Str., 350044, Krasnodar, RUSSIA

ABSTRACT

In the global economy and in the context of globalization, corporate governance has established itself as a reliable and key factor in the formation of the investment attractiveness of integrated structures, with the help of which it is possible to build up competitive advantages and obtain more affordable, relatively inexpensive, stable and long-term sources of investment. It has long been common practice for foreign investors to establish business contacts with Russian companies to assess the degree of development of corporate governance as responsibly as, for example, the financial and economic results of their activities. And this is natural, because, as a rule, it is no secret to anyone that an improperly built or involved corporate governance mechanism reduces the market value of companies by 30-35%. In the course of our study, we came to the conclusion that in most Russian companies the importance of the formation of investment attractiveness as an essential factor is still underestimated. As a result, most corporate procedures in these integrated structures are formal and declarative in their nature, which gives only some temporary improvement. An analysis of special foreign literature on the issue under study shows that it is impossible to simply transfer foreign standards and corporate governance mechanisms to Russian companies due to many national and industry specifics. It is clear that, in the conditions of Russian realities, this situation requires creative refinement and addition of global corporate governance standards, taking into account national and industry specifics, and also the development of a simulation financial and economic model, which should allow optimizing the solution of strategic tasks of increasing their investment attractiveness, identifying the most significant environmental factors and develop methodological approaches to improve it.

INTRODUCTION

The organization of corporate governance in companies of advanced states is built by combining special norms of the law, regulations, and entrepreneurial practices. This approach makes it possible to mobilize human and financial resources, increase the efficiency of production and financial activities, etc., which, ultimately, allows them to accumulate long-term economic value by increasing the value of shares, observing the interests of shareholders and society as a whole [1-3].

In our study, we mean the concept of corporate governance by a higher level of leadership in a company, aimed at ensuring the highest corporate performance, i.e. "corporate governance", and not the ordinary and tactical "corporate management".

This position was originally substantiated by T. Veblen back in 1924. In the course of the development of this approach, A. Berle, G. Mins, and others, when analyzing the owner-manager relationship, revealed a new problem related with agents. It arose due to the discrepancy between the interests of the owners of capital and the agents managing them, which caused many negative consequences.

In the future, many corporate governance models were developed, which, in general, were reduced to three types of models - Anglo-American, German and Japanese [4].

In 1999, the "Principles of Corporate Governance of the Organization for Economic Cooperation and Development" were formulated [5]

These principles acted as refined standards of best corporate governance practices in the global economy:

1. Respect for shareholder rights.
2. Respect for equal treatment of all shareholders.

These standards were built on the principles of justice, responsibility, transparency, and accountability. [6] In recent decades, the Russian model of corporate governance has also begun to be developed. Its institutional environment is characterized by apparent weakness of the national stock market, the

KEY WORDS

world economy, institutional environment, corporate governance, methodological approaches, Russian companies, balanced development.

Received: 9 Oct 2019
Accepted: 21 Nov 2019
Published: 15 Jan 2020

*Corresponding Author

Email:
vi_pi@mail.ru
Tel: +7 9183550880

imperfection of the banking system, the presence of selective enforcement. Probably for this reason, the fund managers of the JP Morgan Chase financial center said that Russia today was able to overcome only the stage of the initial formation of corporate governance. Indeed, many concrete examples can be cited when even large Russian companies declaring the need to use the principles of corporate governance actually do not change anything and continue to manage companies in the old fashioned way.

In our opinion, all of this is a serious basis for improving and developing new methodological approaches and tools for engaging effective corporate governance in Russian companies.

MATERIALS AND METHODS

The research methodology was based on the fundamental principles of a systematic approach to the formation of a rational organization of corporate governance in Russian companies.

In the course of the study, we used the basic principles of classical economic theory, the theory of control systems, and corporate governance models.

We also involved research methods and techniques such as analysis, synthesis, comparison, analogies, and generalizations.

RESULTS

In a comparative analysis of the use of foreign corporate governance standards by Russian companies, we found that these principles (standards) in domestic companies simply end with their declaration. This conclusion also correlates with the data of the international rating agency Standard & Poor's, which makes up the corporate governance rating of domestic companies [6,7].

In the course of the study, we compared the main components of foreign corporate governance standards with everyday corporate governance practices in Russian companies in 4 areas:

- violations;
- absence;
- features;
- building up.

The “violation” provisions were identified with respect to a number of significant corporate governance components in companies - players in the sector, that did not comply with the provisions of the advanced foreign standard – in particular, there was a fact of non-transparency of the share capital structure and ownership of shares of other companies, violation of the terms for its updating after the reporting date, etc.

The “absence” position means that certain particularly significant provisions in foreign corporate governance practice are ignored by almost all the Russian companies examined, for example, the formation and reward for availability of a certain business culture.

The provision “features” involves the identification of specific, special characteristics inherent only to Russian corporate practice, which are not characteristic of foreign corporate governance standards, in particular, for example, the payment of dividends only to a certain part of shareholders.

The “build-up” position is associated with the peculiarities of the Russian corporate governance environment and is caused by the lack of proper corporate governance on the part of the Russian stock market, commercial banks, and insufficient enforcement.

With the use of improved corporate governance standards and increasing the market value of Russian companies to the necessary parameters of foreign long-term investors, their investment attractiveness can and should undoubtedly increase [8-10].

The estimated performance indicators of corporate governance and the complexity of their development are of particular interest. Here, in addition to generally accepted Russian financial indicators, it is necessary to take into account generally accepted international estimated indicators (for example, EBITDA margin, etc.). Moreover, the selection of financial indicators should be focused not only on the interests of shareholders and creditors, but also meet the needs of strategic and portfolio investors.

Possible options for improving corporate practice in domestic companies need to be developed taking into account the direct and indirect effects of positive transformations in their corporate governance [11-15].

At the same time, we understand direct impact as the savings in operating costs resulting from the reduction of production costs associated with low motivation of management, a decrease in the cost of an investment program with more effective management and increased oversight level when it is involved.

We mean by indirect impact the availability of more favourable investment conditions in the form of prolongation of terms and lower interest rates on loans, and growth in the market value of shares.

The modified methodological approach to the formation of an effective corporate governance system proposed by us involves improving the methodology for determining additional and refined corporate governance standards, taking into account Russian realities.

The largest Russian companies (PJSC Gazprom, PJSC RusHydro, etc.) show a high level of ownership concentration in the hands of government agencies and financial and industrial groups.

It should be noted that in companies of the Western countries, the availability of an owner with a large block of shares, as a rule, is not a source of negative impact on the course of corporate governance, because the relations between all holders of the company's blocks of shares are transparent. At the same time, one can always clearly imagine how the activities of a major shareholder meet the interests of all shareholders. Such line of conduct is still absent in Russian companies, in connection with which we see a permanent violation of the rights of minority shareholders owning a modest number of shares...

Moreover, minority shareholders are never members of the Board of Directors, and of regulatory bodies; they are not even among receivers of mandatory dividends, moreover, very often they are deprived of the right to receive the necessary reliable information about the company.

The electricity generating companies that we studied did not even have a formalized dividend policy, and, of course, the criteria for determining the recommended dividend payments... All this confirms once again the need to form a civilian Russian business culture, which takes into account, without fail, socio-environmental and economic aspects in a single general balanced development strategy. [16, 17]

It should be noted that the Russian Union of Industrialists and Entrepreneurs is doing some work to enhance the activities of Russian companies. In particular, it developed guidelines for the preparation of non-financial reporting, proposed a set of basic indicators for assessing the final results of companies that meet international standards and are adapted to the Russian accounting system and legislation.

Another problem is the permanent violation by Russian companies of the deadlines for publishing annual and quarterly financial statements prepared in accordance with IFRS: annual reports are published 6-12 months after the end of the reporting period. Also, there are cases when a company refuses to name its real owner. All this, of course, negatively affects the confidence of future investors...

A particular problem is the lack of an adequate level of market thinking, professional corporate governance skills among senior management, especially government representatives on the Board of Directors. This is especially evident in state-owned companies. And this is partly explainable: state-owned companies are extremely reluctant to attract external investors to participate in the implementation of "their own" investment programs, as a result of which they ignore the "rules of the game" of corporate governance, which is typical in the daily activities of private business. [18, 19, 20]

Such a comparative analysis of the most significant components of corporate governance standards generally recognized in advanced countries with corporate practice in Russian diversified companies allows us to identify not only inconsistency of the latter in the four main areas considered, but also to develop additional corporate governance standards that reflect and take into account the functioning of Russian companies.

Implementation of improved standards within the framework of the proposed methodological approach allows mobilizing corporate governance in the interests of all participants in Russian companies. Such an approach will allow obtaining objective data on the status of corporate practice in companies, quickly identifying bottlenecks directly in corporate governance, and ultimately creating investment attractiveness and new competitive advantages.

CONCLUSION

- The analysis and generalization of best international practices in corporate governance made it possible to emphasize its special role in shaping the investment attractiveness of integrated structures for external investors, highlight its specific features caused by the high level of effectiveness of external corporate control by commercial banks and the stock market, the degree of development of strategic analysis, planning and forecasting, exposure to universally recognized standards of corporate governance.
- In the course of the study of Russian corporate governance practice, its characteristic differences were highlighted, which allowed us to develop a modified methodological approach to improving the corporate governance system in domestic companies taking into account the interests of investors.
- The proposed modified methodological approach to improving the corporate governance system is based on a comparison of the most significant components of world standards with corporate activities in companies which are players in the sector.

- The analysis of the most significant environmental factors (improvement and rigorous implementation of legislation, state regulation, improvement of tax policy and tax administration, the formation of a financial system, etc.) allows not only determining the level of investment attractiveness of Russian companies, but also to generalize the requirements of potential investors and develop an optimal vector assistance.

CONFLICT OF INTEREST

The authors confirm the absence of a conflict of interest.

ACKNOWLEDGEMENTS

None.

FINANCIAL DISCLOSURE

None.

REFERENCES

- [1] Vassilyev D. Corporate governance in Russia: is there a chance for its improvement? [Electronic resource] URL: <http://www.hse.com/ic/materials/dvasiliev.htm>
- [2] Basyuk AS, Prokhorova VV, Kolomyts ON, Shutilov FV, Anisimov AY. [2016] Administration management in the innovation cluster, International Review of Management and Marketing, 6(6):180-184.
- [3] Misakov VSMisakov AV, Turova LA, Adzhieva AYU, Eskiev MA. [2017] Ways of improving the economic mechanism for the social development of rural settlements of mountainous areas, International Journal of Advanced Biotechnology and Research, 8(4):964-972.
- [4] Generalization and use of world experience in the formation of corporate governance mechanisms in transition economies. [Electronic resource] URL: http://www.bestdisser.com/see/dis_l20185.html
- [5] Problems of implementing corporate governance principles at Russian enterprises. (Analytical study of AVK). 2001. [Electronic resource] URL: <http://www.avk.ru/siteDatabase.nsf>
- [6] [2010] Modern corporate governance in Russia through the eyes of foreign businessmen and experts: results of a joint study of the NSKU and the Russian-British Chamber of Commerce, M.
- [7] Gillies D, Bartha P, Levlan R. [2006] Structure versus Function: The Evolution of Corporate Governance (US Case Study). Russian Management Journal, 4(1):147-162.
- [8] Stiglitz J. Qui scustodiet ipso scustodies? Failures of corporate governance in the transition to the market. [Electronic resource] URL: <http://www.rusref.nm.m/indexpub278.Doc>
- [9] Prokhorova VV, Zakharova EN. [2016] Peculiarities of corporate governance methodology, Journal of Internet Banking and Commerce, 21(4):10.
- [10] [1996] Corporate Governance in Central Europe and Russia. Ed. by R. Frydman, Ch. Grayand A. Papaczynski. WorldBank, 3.
- [11] Misakov VS, Turova LA, Yandarbieva LA, Thamadokova IKh, Goigova MG. [2019] Certification of regional economic complex as a highly effective tool for analysis and diagnostics of its development, Amazonia Investiga, 8(20):451-458
- [12] A study of the information transparency of Russian companies in 2008: slight progress against the background of a sharp decrease in the number of IPOs. [Electronic resource] URL: <http://www.standardandpoors.page.php?path=analitica>
- [13] Corporate Governance: A Framework for Implementation, - World Bank, 1999.
- [14] Misakov VS, Khamzatov VA, Temrova AKh, Misakov AV, Dikareva IA. [2018] Strategic management of innovative agro-industrial projects Amazonia Investiga, 7(14):16-23
- [15] Ugurchiev OB, Dovtaev SASH, Misakov VS, Misakov AV, Temmoeva ZI, Gyatov AV. [2018] Transition mechanism development to the sustainable balanced development of depressive territories, The Turkish Online Journal of Design Art and Communication, 8:248-253
- [16] Konstantinov G. [2006] Problematic field of corporate governance Corporate Governance. 2.[Electronic resource] URL: <http://www.nccq.ru/site.hr/>
- [17] Prokhorova VV, Chernikova VE, Anopchenko TU, Goloshchapova LV, Kulikova NN. [2018] Formation and development of industrial clusters in the socioeconomic regional system Espacios. 39(31).
- [18] Shleifer A, Vishny R. [1997] A survey of corporate governance, Journal of Finance, 52:737-783.
- [19] Sozinova AA, Zhelnina EV, Prokhorova VV, Zelinskaya MV, Putilina IN. [2016] Economic environment activities of Russian corporations, International Journal of Economics and Financial Issues, 6(1):52-56.
- [20] Honohan P, Atiyas I. [1989] Intersectoral financial flows in developing countries, Working Paper, World Bank. Wash. (D.C.), 164.