

# The national model of corporate governance as the basis for the sustainable development of the Russian economy

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**Abstract.** In recent decades, the country's leadership has adopted many programs and projects for economic growth, the implementation of which does not always give the desired result. In our opinion, the main reason for this is insufficient attention to the corporate organization of business and the contemporary choice of a national model of corporate governance. The article considers the role of a contemporary corporation in solving the tasks of growth of the Russian economy. The authors' comparative research clearly shows that in the developed countries, corporations provide innovative and technological development, serving the core of the economy. A system-structural analysis demonstrates the organizational complexity of managing a corporation due to the multitude of participants, functions, tasks, and strategies. It is shown that at present, corporations do not use enough market investment mechanisms, practice excessive export abroad or inappropriate use of retained earnings, and restrain the growth of corporations, which are essentially the material carriers of the modernization programs of the Russian economy. Improving the corporate governance model will significantly overcome the existing shortcomings. The approach proposed by the authors calls on the executive and legislative authorities to change the paradigm of corporate governance in Russia, the main principles of which are contained in the article, which would allow launching the processes of reproduction and development at the corporate level.

**Keywords:** national model, corporate governance, economy, market, policy

## 1. Introduction

Over the past 20 years, scientists and experts have been talking and writing about the problematic growth of the Russian economy, the revitalization of industrial policy, changes in the structure of GDP, modernization, innovation, sustainable growth. Among them are V. Polterovich [1], S. Glazyev [2, 3], V. Ivanter [4], V. Obolensky [5], V. Kudrov [6]. Unfortunately, the adopted model of development of the domestic economy did not imply the reaction of the state authorities to the problems under discussion. However, in May 2018, the May decree of the President of the Russian Federation appears, in which a breakthrough action strategy is actually proposed [7]. And the publication of the article by the Chairman of the Government of the Russian Federation D. Medvedev timely appears, in which he explains the strategy for activating the growth of the socio-economic sphere on the basis of national projects [8].

In fact, the implementation of these projects means a certain reform of the methods and tools of economic management aimed at increasing domestic demand, enhancing entrepreneurship and investment. In this context, we believe it is important to recall the history of Russian market reforms of

the 1990s and 2000s, which provides useful information for practical actions. This reform acts as a global experiment to test the validity of many scientific assumptions and hypotheses such as the theory of the company, the theory of the market, the theory of corporate governance and some other [9].

## **2. Materials and Methods**

What can one pay attention to when analyzing the results of Russian market reforms? First, building a market economy turned out to be much more difficult than it was declared. We needed to create a self-developing economic system capable of overcoming the market barriers of competing countries, i.e. integrate into the global division of labor. This imperative could be realized only on the basis of an adjusted model of development, for example, according to the Chinese experience.

Secondly, in the current economic model, the following systemically important tools and mechanisms of the market could not be fully utilized: the activities of large corporations; entrepreneurship; private property, balancing the number of large, medium, and small enterprises; population involvement in investment processes; motivation for high-tech business and innovation; rational behavior of market agents focused on business development, and not its use as an object of sale; creation of institutional conditions and rules of conduct for market agents. Destroying socialist enterprises, reform was obliged to replace them with market enterprises.

A contemporary Western corporation is a fusion of financial, intellectual, material and organizational resources, high engineering and technological and production competencies. It is a source of constant product, technological and managerial innovations and makes a tangible contribution to the development of the national economy.

We have the following: the economy of the Russian Federation still has low rates of development, inefficiently uses resources, an unjustifiably high export of capital persists, which clearly indicates the failure of the national model of corporate governance and unsatisfactory investment in development and innovation [5], [6].

The rationale for this thesis is an example of the failure of corporate governance, which led to the export of hundreds of billions of dollars from a country during the post-perestroika period, which should have been directed at reinvesting the growth of corporate output, and hence GDP growth [11].

It should be emphasized that this is far from complete data of inappropriate use of retained earnings by domestic corporations, the problem is that in this part there are no regular statistics on private corporations, moreover, the information is hidden under the cover of official confidentiality. Unfortunately, in the area of improving restrictive and regulatory legislation on corporate governance, nothing is being done, these problems are not even discussed, but they will inevitably again stand in the way of the implementation of national projects. Obviously, within such projects, new high-tech corporations should appear, however, in this case, the project is only a kind of impetus to the beginning of the activity, the main thing is to start the mechanism of their reproduction and development, and here we cannot do without an adequate corporate governance model.

One of the proofs of problems in corporate governance in Russia is the rating of national corporations, where the largest Russian company Gazprom in terms of sales is not included in even the top 30 large West companies. At the same time, there are no high-tech enterprises among large domestic corporations.

## **3. Results**

Creating the necessary institutions is the current imperative of building a national economic model in which untapped growth reserves lie. The time has come to move away from the dominant entrepreneurial model in Russia, which is characteristic of transitional economies, when a sole proprietor or a limited number of proprietors own the assets and financial results of the corporation. The transition to contemporary, socially oriented corporate governance models will ensure the implementation of development strategies based on effective investment mechanisms and tools. First, retained earnings, as the most important source of corporation development, are included in the reproduction processes. This profit is usually withdrawn from personal consumption. Let's look at the contents of Table 1. To create

a corporation with such high-quality and expensive assets, we need to have a reliable, long-term own source of financing for them, such as retained earnings [12].

Secondly, contemporary corporate governance involves a large number of shareholders, including minority shareholders, which allows, among other things, to increase the profitability and purchasing power of the population, their interest and their participation in economic processes.

Third, contemporary corporate governance will create the natural conditions for corporate innovation.

Fourth, contemporary corporate governance will enhance the quality of corporate control, including by establishing a natural balance between private and public interests, as it happens in all countries with developed market economies.

At the beginning of the two thousandth, in Russia, the concept of “not developing industries in which we did not have competitive positions” dominated. The industry functioned either on government orders (sales guaranteed), or in those sectors of the global market in which strong competitive advantages and profits were secured, i.e. in fact, again, sales are guaranteed (aluminum, nickel, steel, not to mention oil and gas). However, for this reason, we began to lag behind even more in machine building, power engineering, electronics, home appliance manufacturing and many other sectors [6].

Obviously, in order to create enterprises of high-tech industries, we needed substantial state support and appropriate industrial policy, within the framework of which close attention needed to be paid to the corporate governance model [12], [13]. In developed countries, corporate governance is constantly being improved. Businesses, investors, banks and other participants are involved in improving corporate governance procedures. To a large extent, the organization of corporate governance is determined by legislation, the system of state regulation and accepted business practices that form the institutional framework for corporate governance. At the same time, many elements of corporate governance are not regulated by one center in any country. In developed industrial countries, different corporate governance systems have historically been established. Basically, these differences are determined by the factors of concentration of ownership and the presence of the dominant owner or shareholder with a controlling stake. In “Most European countries, the concentration of ownership varies from 40 to 80%, which is significantly higher than in the UK (14%), the USA (25%) and Japan (33%), where dispersed shareholdings prevail [12, p. 89]. However, even with a high concentration of shares in the hands of one shareholder, there is practically no evidence of direct withdrawal of retained earnings.

#### **4. Discussion**

In our opinion, the choice and consensus on the issue of a national model of corporate governance is the root of all the problems of building a developing economy, since growth and development will invariably come up against methodological, organizational, institutional and social barriers that will inevitably divert forces and attention to their elimination.

The role of the corporate governance model in the development of a corporation cannot be overestimated. It defines the main mechanisms of interaction between management and owners, distribution of financial flows, issues of strategic development, relations with the state, tax authorities, stakeholders and a number of other.

The main (central) element of the activities and development of the corporation is management. A clear separation of owners and managers is typical of the classic Anglo-Saxon (American) outsider model. The combination of property and management is permissible for insider models. The corporate governance model ensures the equilibrium interaction of all participants in the process of achieving the goals of the corporation.

If the owner of a corporation is represented by one person, then the goals of the corporation dissolve into personal, often consumer goals of this individual, and this fact leads to the actual theft of retained earnings, bypassing all institutions and theories, which is convincingly confirmed by the activities of Russian corporations.

What is the phenomenon of contemporary advanced corporations engaged in the production of high-tech products over a long period of time, for decades? What is the phenomenon of these corporations

making significant investments in R & D and remaining competitive over a long period of time?

In our opinion, a contemporary corporation is a most complex developing production system, possessing vast historical experience in solving a variety of technical, financial, scientific, social and organizational tasks. The strategic potential of such a corporation (Table 1) allows it to occupy in the industry if not leadership, then at least a very strong competitive position, carrying out a full cycle of innovative research and production [15]. The data in Table 5 shows very substantial investments in research and development, which for individual companies exceed 20% of sales, for example, for companies such as Intel (21.5%), Roche Holding (21.9%), Merk (25.4%). In absolute terms, these are billions and tens of billions of dollars. The withdrawal of such huge amounts from the company's operating cycle naturally does not remain without consequences for its financial condition. However, the optimal capital structure in these conditions, market capitalization, credit history, investment attractiveness, dividend policy and a number of other elements of the modern management of the corporation allow it to remain stable and develop steadily [10], [16]. Without a doubt, the market and financial stability of such corporations is supported by their own capital, whatever loans the company attracts, they must be returned from their own profits, including from retained earnings. Therefore, if retained earnings are taken out of turnover, then, at a minimum, this is done by curtailing innovation development programs. Certainly, intelligible conditions and rules for regulating and coordinating all participants play an important role in the activities of such corporations. Such rules constitute the content of the national corporate governance model. Many researchers, noting the lack of large corporations in the structure of the national economy of the Russian Federation, suggesting various mechanisms for their creation, for example, the ideas of new industrialization and the revival of the manufacturing industry, are among the real imperatives of Russia [17].

## 5. Conclusion

We would like to formulate a number of principles for developing a corporate governance model for the Russian economy:

1. It is necessary to create a clear legal framework for the regulation of corporate relations and corporate activities;
2. When forming a set of legal norms for regulating corporate relations, the interests of all parties, from direct owners-shareholders to the state, should be taken into account. For example, a sole proprietor does not have to fully appropriate retained earnings in the form of personal consumption.
3. The corporate governance system should be strictly regulated in all of its components and elements, which include the following: a meeting of shareholders, a board of directors, control bodies, and supervisory boards.
4. The process of socialization in creating a corporation should be implemented to the maximum extent; perhaps, one should set a lower limit for the number of shareholders, including institutional ones.
5. A special procedure for creating private corporations and corporations with mixed capital is needed. This applies to corporations that plan their activities in industries that determine the national security of a country, such as energy, use of strategic raw materials, extraction of strategic minerals, creation of high-tech innovative products and unique technologies, etc. For such corporations, clear mechanisms for managing resources and capital should be specified.

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