

Financial Sustainability of Corporations in Russia as Foundation of National Economic Development

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ABSTRACT

The study stipulates the need for regulation of national economic development considering economical instability in Russia and pursuing the fact that enhanced financial sustainability of commercial corporate organizations provides for national economic growth. The study defines position of corporate sector in economies of the United States, Canada, Ukraine and Russia at macro level, and the same at meso level in the economy of Stavropol Region. Among the key indicators that evaluate the role of corporate sector in economy of the region a degree of corporations' participation in gross regional product (GRP) of the Stavropol territory is well underlined. The issues of financial sustainability of corporations in Stavropol Region revealed by means of relative and absolute indicators in most cases refer to complete insolvency, crisis, and strong dependence on external sources.

Keywords: *economic development, economic growth, corporations, financial sustainability*

1. INTRODUCTION

Economic growth is a necessary condition for endurance and development of corporations in competitive environment, which counterweights economic destabilization expressed as the lack of equilibrium and unbalanced business relations. In order to avoid negative impacts and ensure sustainable effective operation it is advisable to apply all elements of economy mechanisms. Corporate sector business in general and in particular sectors integrating financial resources to improve business structure and economy as a whole is affected by national economies growth. Proper financial policy of the corporation ensures corporation's success, whereas efficient performance of corporations can influence national economic growth.

National economic growth and financial stability positively influence corporations' performance, namely, currency stability minimizes risk of financial losses; stability in market demand increases producer's confidence and need to enhance production; stable and sustainable economy creates opportunities for business forecasting and more stable action planning. However, due to sanctioning against Russia from the EU and the USA, Russian corporations run their businesses in unstable financial conditions, which

prove high financial dependency of Russian corporations' on borrowed capital.

In modern conditions, corporations become a significant factor for institutional transformations and represent the most important lever in national economy structural reorganization. National economy should be improved by means of financially stable local corporations that can ensure continuous process of production and sales via efficient utilization of resources.

Unfortunately, most scientists and economists – such as O. V. Efimova, E. I. Borodin, V. V. Berdnikov, M. V. Melnik (2013) [1], N. P. Lyubushin, D. A. Endovitsky, N. E. Babicheva (2018) [2] research corporations' financial activities exclusively at micro level with no connection to economic development of a country. In order to determine efficient investment in corporations there is a need to identify the degree of corporations' input into economic growth, which in fact determines the relevance of this study. The goal of the study is to justify regulated development of national economies where financial stability of commercial corporate organizations ensures economic growth following the principle of “pyramid” where each subsequent level is linked with the previous one.

Working hypothesis of the study is based on the need for regulated or controlled development of national economy via improvement of financial sustainability of corporate

business organizations. That implies identification of corporate sector position in national economy at macro-, mesoscale levels, detecting the ways of positive involvement of corporations into socio-economic development and economic growth of the country as well as identification of corporations' financial sustainability level with absolute and relative indicators. In the end, all the above is called to present correlation between financial stability of corporations and national economic development.

2. METHOD

2.1. Identification of corporative sector in national economic

Main goal of each corporation pursues ensuring stable development of economy, capitalizing on profits, and reaching key performance indicators - those determine national economic growth at macro level.

Management levels that ensure stable economic development supervise the following listed in order: economic development of business enterprises; sustainable development of economic sectors; sustainable development of regions; sustainable development of federal districts; sustainable national economic growth as a whole. Each subsequent level is associated with the previous one. Respectively, lack of corporations' development makes impossible national growth, which reflects the principle of "pyramid". Destructive influence though may occur from business destabilizers existing even in the environment of sustainable economic development. Therefore, multi-level assessment of corporations' economic position is necessary at macro-level for federal districts, meso-level for regions and major economic sectors, micro-level for business entities. Given that the key factor for economic growth is assurance of financial sustainability of corporations, it is important to identify the best indicators of sustainable development at every management level considering overall efficient development of national economy.

2.1.1. Corporative sector at macro-level: Russia and other countries

Table 1. Role of corporative sector compared between national economies in Russia and other countries

YY	GDP, billion US dollars	Corporative sector share in GDP, %	Aggregated number of employed, million people	Number of employed in corporate business, %
USA				
2010	14526,6	42,5	227,6	68,9
2011	15060,0	65,2	223,3	67,6
2012	15650,0	69,0	221,9	67,2
2013	16720,0	80,6	218,0	66,0
2014	17420,0	85,9	223,2	67,4
2015	17970,0	88,0	224,9	67,9
Canada				
2010	1577,0	44,9	22,3	59,9
2011	1759,0	63,1	22,5	61,4
2012	1770,0	67,7	22,6	61,8
2013	1825,0	78,3	22,8	65,4
2014	1794,0	78,2	23,0	65,0
2015	1573,0	81,0	23,2	63,6
Ukraine				
2010	137,9	39,5	18,4	35,8
2011	162,9	44,2	18,5	40,1
2012	180,2	50,9	18,7	40,1
2013	134,9	55,7	18,9	41,7
2014	134,9	61,4	17,2	36,5
2015	90,1	57,0	15,7	33,0
Russia				
2010	1479,8	37,0	69,9	51,0
2011	1885,0	44,3	70,9	52,6
2012	1954,0	52,0	71,5	53,1
2013	2113,0	68,5	71,4	53,7
2014	2057,0	75,1	71,5	54,0
2015	1236,0	76,0	72,3	54,8

Source: compiled by authors from research materials (Official site of State Statistics Agency of Ukraine) [3].

American corporative sector constitutes the ground of economic national growth since its representation share in GDP from 2010 to 2015 grew from 42.5% to 88.0%, by total number of employees from 218 million people to 227.6 million people, with the number of people employed in corporate business from 67.4% to 68.9%. In Canada, share of corporative sector in GDP is noteworthy from 44.9% to 81.0%; number of people employed in corporate business varies from 59.9% to 65.4%. Unfortunately, the number of employees in Ukraine is insignificant: from 15.7 million people to 18.9 million people, with the number of employed in corporate business from 33% to 41.7%. Positive trend is noted in Russia where the share of corporative sector in

GDP grew from 37.0% in 2010 to 76% in 2015, and total number of employees changed to 72,3 million people (Table 1).

2.1.2. *Corporative sector at meso-level: Stavropol Region, Russian Federation region.*

Corporative sector's share in national economy or regional economy can be assessed with corporations' share in GDP: GDP (GRP) / gross profit of corporations in the respective level – Table 2.

Table 2. Assessment of corporations' share in GRP of Stavropol Region

Indicators	YY							Variations (+, -)
	2012	2013	2014	2015	2016	2017	2018	
GRP, million rubles	431753,4	480905,3	540796,8	621198,3	642895,3	665422,4	715511,4	+ 283758
Gross Profit, million rubles	46032,4	57650,8	69216,7	93845,4	98044,4	100192,2	123500	+77467,6
Corporations' Share in GRP, %	937,9	834,2	781,3	661,9	655,7	664,1	579,4	- 358,5

Source: compiled by authors from research materials (Official site of Territorial body of the Federal State Statistics Service for the North Caucasus Federal District) [4].

Regrettably, degree of corporations' share in GRP of Stavropol Region is gradually decreasing from 937.9% in 2012 to 579.4% in 2018, or by 358.5% average.

Assessment of corporative sector's share in national economy / economy of a region is supplemented by the following indicators:

- share in job creation in the country (region): average annual number of employees in national (regional) economy / average number of corporations' employees at corresponding level;
- share in investment: volume of national (regional) investments / volume of investments in national (corporate) projects;
- environment protection level of corporations of each level: emissions of harmful substances into atmosphere from corporations of each level / total amount of harmful emissions in the country (region);
- corporations' innovations: amount of corporations' innovations of each level / total national (regional) innovations;
- social activity level - number of ongoing social national (regional) projects / number of ongoing social projects of corporations at each level;
- level of professional education - number of students educated by corporations' order from each level / overall number of students in a country (region).

Identification of the above indicators figures demonstrates corporations' performance in national (regional) economy, namely they evaluate efficiency or identify the need for investments into corporations. This way, scales of corporations' activities are compared in dynamics and determine the level of corporative vitality. If necessary, appropriate methodological tools are applied and rating is determined.

It should be emphasized that development of corporative sector in national economy contributes to capital integration, modernization of knowledge and practices, solution of complex economical and social problems, guarantees both: stability at macro level and national economic growth.

2.1.3. *Forms of positive influence of corporations on socio-economic development and economic growth of a country*

Forms of positive influence of corporations on socio-economic development and economic growth of a country are classified into 4 groups – figure 1.

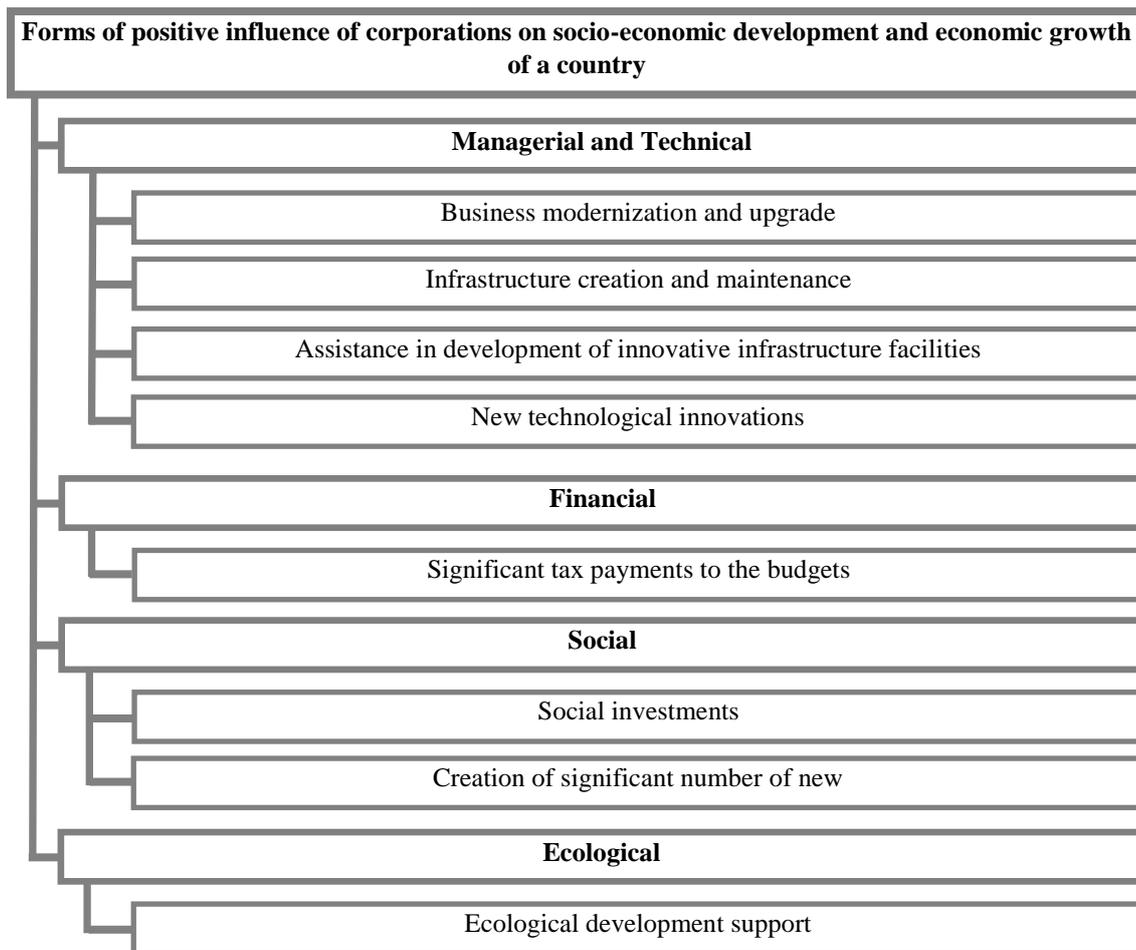


Figure 1. Forms of positive influence of corporations on socio-economic development and economic growth of a country (developed by authors as per research materials)

3. RESULTS

3.1. Assessment of corporations' financial stability by means of absolute and relative indicators

Competent assessment of financial sustainability is a subject of interest initially for business and then for stakeholders, customers and the state, since it represents a guarantee for their economic interests and well-being. The latter fully justifies connection of financial sustainability of corporations with national economic development. However, most part of economists: O. V. Efimova, E. I. Borodin, V. V. Berdnikov, M. V. Melnik (2013), N. P. Lyubushin, D. A. Endovitsky, N. E. Babicheva (2018) do

not connect results of financial sustainability assessment of corporations with national economic development.

Financial sustainability of corporations is a tool ensuring long-term economic growth and development. Creation of favorable conditions for intensive growth and sustainable development of the Russian economy is mainly determined by corporations' success, which in turn depends on their financial sustainability and ultimately ensures national economic development. Laying the groundwork for financial sustainability of Russian corporations should determine sustainability of both corporations and national economy as a whole. It becomes of particular importance in the context of implementing national programs for national production promotion, import substitution and innovative development. Financial sustainability of corporations in particular determines the grounds for successful execution of reforms in innovative development of Russian economy. Assessment of corporate business organizations' financial sustainability in Stavropol Region - Table 3.

Table 3. Identification of financial sustainability type for corporative business organizations in the region by means of absolute indicators

Indicators	YY						
	2012	2013	2014	2015	2016	2017	2018
1. Proficiency / deficit (+, -) of own capital, in thousand rubles	-218139088	-213893023	-480529956	-614032500	-535089934	-732406310	-595436131
2. Proficiency / deficit (+, -) of own and borrowed capital, in thousand rubles	-110963786	-73637692	-107667239	-241201284	-293505651	-317033724	-74035510
3. Proficiency / deficit (+, -) of joint capital, in thousand rubles	-30835040	-3275285	+135817154	-60543596	-50021258	-69426653	+563302543
4. Type of financial sustainability	0, 0, 0 – complete financial insolvency, crisis		0,0,1 – Pre-critical situation	0, 0, 0 – complete financial insolvency, crisis			0,0,1 Pre-critical situation

Source: compiled by authors as per research materials: Manuylenko V. V., Ryzin D. A. (2018) [5].

Regrettably, in periods of 2012 – 2013 and 2015 - 2017 corporative business organizations in Stavropol Region were completely insolvent and in a state of crisis, since the amount of joint (own and long-term borrowed) capital was not sufficient to protect reserves. In 2014 and 2018 - the situation stayed pre-critical, total capital protected reserves. Assessment of corporative business organizations' financial sustainability in the region by relative indicators - table 4 - indicates that during retrospective period the autonomy indicator did not reach its criterion mark - 50%, but varied in the range from 21.4% to 42.4%. At the same time, the

golden rule of financial management when the share of equity in total capital should be at least 66% was not satisfied.

Ministry of Economic Development and Trade of the Russian Federation recommended critical value of financial leverage, which should not exceed 70%, and according to the "golden rule of financial management" it is 51.5% (34%: 66%). Value of financial leverage for corporate business organizations in Stavropol Region exceeds critical level set by the state almost 2 times and even more.

Table 4. Assessment of financial sustainability of corporative business organizations in the region by means of relative indicators, %

YY	Own capital / Joint capital	Financial leverage (external capital / own capital)
2012	42,4	135,9
2013	40,6	146,0
2014	24,1	314,0
2015	21,4	366,9
2016	22,8	339,5
2017	30,4	229,1
2018	34,1	193,2

Source: compiled by authors as per research materials: Manuylenko V. V., Ryzin D. A. (2018)

Thus, comprehensive assessment of corporative business organizations' financial stability with absolute and relative

indicators acknowledges complications. Financial activities of business highly depend on external sources.

3.2. Justification of the need to ensure financial sustainability of corporations in conditions of instability

In conditions of instability, globalization of world financial markets and high fluctuation of energy resources costs and currencies, financially unstable corporations undergo economic losses. That limits the range of possibilities to outline economically safe forms of business with high level of financial stability. In post-crisis phase Russian corporations should ensure economic safety at irreducible level of financial sustainability, which is conditioned with the following factors:

- market stagnation determined by immense decrease of market offer related to the lack of financial sustainability of corporations;
- negative values of cash flows in corporations with financial instability do not fit the needs of simple reproduction;
- stable market positions and investigation of new business segments provide synergistic effect for corporations that lay grounds for financially safe conduct of business based on financial sustainability.

Therefore, maintenance of corporation's financial sustainability is one of the main tasks in corporation's financial management. Elimination of potential bankruptcy requires timely analysis of financial activities, identification and elimination of bottlenecks, as well as strategic planning in changing conditions. Overcoming economic instability and reaching new business levels require development of optimal financial policies.

4. CONCLUSIONS

In theoretical and methodological block of research:

- most academic economists: O. V. Efimova, E. I. Borodin, V. V. Berdnikov, M. V. Melnik, N. P. Lyubushin, D. A. Endovitsky, N. E. Babicheva evaluate financial performance of corporations exclusively at micro level not connecting it with national economic development;
- forms of positive influence of corporations on socio-economic development and national economic growth are categorized in 4 groups: organizational, technical, financial, social, and environmental.

In practical block of the research:

- position of corporative sector in economy of the USA, Canada, Ukraine and Russia was determined, which allowed to prove growth of corporative sector share in GDP of Russia from 37% in 2010 to 76% in 2015; total number of employees changed to 72.3 million people;
 - corporations' participation in GRP of Stavropol Region decreased from 937.9% in 2012 to 579.4% in 2018 or by 358.5%;
 - comprehensive assessment of financial sustainability of corporative business organizations with absolute and relative indicators stipulated its significant dependence on external capital, that does not allow regulate national economy development and promote economic growth, provided that absolute indicator in 2012 - 2013, 2015 - 2017 specified full insolvency and crisis, also indicator of autonomy did not reach its criterion mark - 50%, but varied in the range between 21.4% and 42.4%, and financial leverage was more than 2 times higher than the critical level set by the state.
- Therefore, insurance of financial sustainability of corporations and granting its constant enhancement are the main complex tasks of corporations' financial management. Its successful implementation influences national economic growth.

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