

Integration of the state-owned enterprises in Russia

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Abstract. The article is dedicated to the problems of restructuring of enterprises with the state-owned share in the authorized capital in Russia. The relevance of the subject is determined by low efficiency of such enterprises and by the government aims to increase it, as well as to reduce the burden on the executive authorities carrying out control over such enterprises. In order to carry out the rational restructuring of the state enterprises in Russia the authors suggest the establishment of an appropriate procedure, which will become the single methodological framework for the classification of enterprises and execution of typical restructuring measures for each of the distinguished groups. [Verstina N.G., Kisel T.N., Taskaeva N.N., Chibisova E.Y. **Integration of the state-owned enterprises in Russia.** *Life Sci J* 2014;11(8s):326-330] (ISSN:1097-8135). <http://www.lifesciencesite.com>. 72

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Introduction

The relevance of the subject of the research is determined by the actual situation, in which the Russian state-owned enterprises find themselves nowadays, and by the most probable trends of its development as well. In general, this situation can be described as problematic. Where in it is possible to distinguish two main problem areas: the economic efficiency of such enterprises and their manageability by the controlling subject.

The economic efficiency of the state-owned enterprises in Russia is estimated as poor assuming the real economic indicators reflecting the performance of the majority of enterprises and organizations of the public sector. Many of these enterprises have a low or negative assets profitability index, liquidity ratio and ratio of financial independence, some of them are unprofitable, that evidently demonstrates the need to implement urgent measures for their rehabilitation and improvement of the economic benefits.

Labor productivity at some enterprises of the public sector in Russia is 2-4 times lower than in the private sector. Capital productivity of the enterprises of the public sector is on average 15% lower than the average of the industry (public and private sector) for the steel industry it is 34%, for non-ferrous metals - 42%, for the production of building materials - 33%, for light industry - 13% below the industry average [1].

An additional reason to think of the necessity of increase in efficiency of the state-owned enterprises is the fact that in many other countries these enterprises are quite able to compete with private companies [2] and act as big players in the domestic market as well as in the foreign market [3].

Manageability of the companies by the owner and the subject of management, which is usually

represented by the executive authorities of various levels, are also characterized as inadequate. That appears primarily in the excessive amount of controlled objects, which leads to a significant number of links to be effectively managed. The complexity of the management process is enhanced by the fact that enterprises and organizations with the state-owned share in the authorized capital belong to different organizational and legal forms, e.i., there is the multiplicity of control modes. So, among the enterprises with the state participation in the authorized capital there are state-owned unitary enterprises - SUE (they are fully owned by the state, the property is indivisible into shares), and joint stock companies with a state stake including from 1 to 100% of the shares.

Propositions

Nowadays in Russia there are more than 17,000 state-owned industrial enterprises (and in addition about 13,000 municipal ones), and about 9000 companies with the mixed property [4]. Each enterprise is subordinated to a certain profile executive authority at the federal or regional level.

To estimate the level of administrative burden carried by the executive authorities, which run the subordinated enterprises with the state-owned state share, we will give an example. So, among the subordinated enterprises of Moscow, there exist more than 500 SUE and 300 joint stock companies with a municipal share in the authorized capital. Among them there are companies engaged in various activities. They are distributed to jurisdictional subordination to different executive authorities, but more than half of these businesses are concentrated in the subordination to 4-6 departments, so that each of these departments carries the burden of managing of

50-70 enterprises. For example, the Department of Urban Planning Policy of Moscow consolidates 30 subordinated SUE, and 102 joint-stock companies, 100 of them are public corporations and 2 are closed joint stock companies, all is 132 objects of management [5]. Such a number of objects of management can be considered redundant, and that leads to decrease in efficiency of the management process, and also complicates the execution of management actions and the ability of supervision.

The aforesaid features lead to the objective necessity of rational transformation of the existing system of management for enterprises and organizations with the state-owned share for their effective adaptation to the modern situation. The ultimate aim of this transformation is certainly the maximum possible increase in economic benefits of the industry, the increase of its contribution to the budget receipts.

The establishment of state integrated structures has recently become one of ways to improve the economic efficiency and manageability of the state-owned enterprises in Russia. Such large structures have been established in the energy industry and in the defense industry. One of the largest of them is the state-owned corporation "Russian Technologies" ("Rostekhnologii"), which includes 13 holdings, among them there are holdings of defense and civilian nature, as well as enterprises of direct subordination. One more example is the state-owned nuclear energy corporation "Rosatom" which brings together more than 350 enterprises and scientific institutions, including all the Russian companies of the nuclear industry, enterprises of the nuclear weapons complex and research organizations. Such state-owned corporations often obtain considerable advantages: they get rather cheap loans from the financial organizations, supervised by the government, and also gain other kinds of state support [6].

Nevertheless, there is the necessity to develop procedure of restructuring and the establishment of integrated structures taking into account the features and restrictions acting with respect to state-owned enterprises and ensuring the maximum efficiency of such transformations.

The given justification of the relevance of the topic proves its obvious practical importance.

Certainly, the procedure of restructuring which is being developed should take into account the aims, which the owner (i.e. the state) sets within the process. Let us represent these goals.

Firstly, there exist the aim of reduction of participation, which is particularly associated with the privatization of state-owned shares of joint stock companies with the state-owned stake in the

authorized capital making up less than 25% + 1 share (a blocking stake).

Secondly, there is the aim to ensure the viability in cities, subjects of the Russian Federation and the country as a whole. That includes:

a) providing the residents with safety and health through the control of the strategically important subordinated enterprises;

b) protection of subordinated SUEs, engaged in activities authorized by law for the SUEs only;

c) ensuring the execution of government programmes by the subordinated enterprises (in the non-competitive fields);

d) keeping the government control over the joint-stock companies, which are meeting the implemented requirements of economic efficiency.

Thirdly, there are budget-oriented aims related with the increase in the economic efficiency of the subordinated enterprises, where the components of the integrated efficiency stand for the amount of budget revenues, increased capitalization of joint stock company, the profitability of the enterprises.

Fourthly, while it is generally accepted, that ineffective activities should be terminated, another (and more complicated) question relates to the management of the entire restructuring process in order to limit the negative effects on workers, companies and regions and to find responses to mass unemployment and the destruction of skills and skilled occupations [7], that will help to reduce resistance to change in the organization [8].

Fifthly we will name the objective aims related with improvement of manageability of the subordinated enterprises. This goal can be achieved, primarily, through the reduction of the number of the managed objects [9]. The sale of shares of joint-stock companies in which the state does not own a blocking stake will contribute to that. Other activities may include the establishment of integrated structures. It should be noted that the intention of the Government of Moscow to establish such structures has been already announced [10].

The term integrated structures in this case stands for the union of two or more subordinated enterprises (legal entities), established by civil law relations with the determination of the managing body (which can be represented by the established legal entity or one of the participants) and with empowerment it to influence on decisions making because of the prevailing stake.

Respectively, there is the necessity of working out some organizational and economic procedure of the restructuring of the existing enterprises taking into account the practice of the application of existing legislation and regulations. However it should be borne in mind that the process

of establishment of such structures, will have significant features caused by the fact that their consist may include SUEs, and open joint-stock companies with the state-owned share in the authorized capital. It is the form of ownership (public or mixed) which determines these features and should be analyzed separately.

This article focuses attention on the methodological aspects related to the restructuring of the state-owned enterprises, and precedes the description of the step-by-step procedure of restructuring.

Certainly, the greatest restrictions during the process of restructuring of enterprises with the state-owned shares are the legal ones.

Taking into account the aims and the legal restrictions, the optimal form of integration is the establishment of holding structures, as within the holding through the parent company's ownership of the subsidiary the ultimate control over the enterprises still lasts while the managerial burden carried by the authorities is reducing, and also the achievement of the maximum integral economic effect becomes possible.

A holding consisting of enterprises with the state-owned share in the authorized capital can be established in two main ways:

1) the establishment of an open joint-stock company and the contribution of the shares owned by the city to its authorized capital or the increase of the existing joint-stock company capital and the contribution of the shares owned by the city to its authorized capital (the holding based on a joint stock capital);

2) the transfer of the shares, owned by the city, to a state unitary enterprise for the economic management (the holding, based on a SUE).

The establishment of the holding based on a joint-stock company is executed in accordance with the legislation on privatization [11]. The controlling (parent) company may be the holder of shares in subsidiaries (pure holding company), and fulfill production and other functions on behalf of the entire holding (production or mixed holding). Holding based on a parent company can be recommended as a basic form of integration because of managing in it through the prevailing stake in the capital of subsidiary companies that fully enables to fulfill the functions of the holding owner.

To ensure the effect on the parent or on a subsidiary company one must hold at least 50% of votes at the meeting. However, in the case, when it is necessary to keep the government control over the established holding structures the 100% state participation in the authorized capital of the "parent" company is reasonable. Subsidiaries included in the

holding must have a stake owned by the state of at least 25%+ 1 share. The other companies should be sold because it is impossible to obtain the necessary level of control over them.

A state unitary enterprise can join the holding company as an associated (subsidiary) company only after its conversion to a joint stock company or Ltd. in accordance with the legislation on privatization and contribution of shares of the established company to the authorized capital of the controlling (parent) company [12]. Moreover, the SUE can act as the controlling ("parent") company in the holding structure (without necessity to change its organizational and legal form). So, it is especially important if the process of restructuring involves SUEs, which cannot be incorporated according to the valid legislation. A distinctive feature of such a holding is that the shares are not eliminated from the property of the state but they are transferred to a state unitary enterprise for the economy managing. The owner of the property of a unitary enterprise is its founder, i.e. the appropriate public legal institution (Item 113 of the Civil Code of the Russian Federation).

Respectively, then we have to define the criteria for selection of enterprises for inclusion them into the established holdings. For example, it is obviously beside the purpose to include into holding the companies and institutions with low efficiency of financial and economic activities. One of the declared aims of the restructuring is to increase the economic efficiency of such enterprises. Inclusion of inefficient enterprises into the integrated structure might undermine its financial stability at the very stage of holding establishment. Therefore, the first criterion for the selection of companies during the establishment of state-owned holding is their economic efficiency.

The key indicators measuring the efficiency of financial and economic activities of the enterprises for the inclusion into the integration structures should include:

- Return on assets (profit before tax);
- Absolute liquidity ratio;
- Asset turnover ratio;
- Financial independence.

The selection of these parameters is caused by their great informational content, revealing the real solvency of the company, the structure of its capital, suffered financial risks and operational efficiency.

Then, because of the fact that the aim of the restructuring is to reduce the number of the subordinate enterprises and to lighten the burden on the governing bodies, while keeping control over the strategically important enterprises, which ensure security, health and normal vital activity of the

population, the criterion for the selection of companies for inclusion them into the holding structure is the level of the strategic importance of the enterprises. So, the company having a low strategic significance and operating in the competitive environment where there is no need for tight control by the state, should not be included in the holdings. Moreover, such enterprises is recommended to be transferred to private hands (to be incorporated and sold).

Evaluation of the level of strategic importance should be done with the help of experts and considering the legal features.

Thus, when selecting the enterprises we should focus on two main criteria –the economic efficiency and the strategic importance.

However, to analyze the management aspect of the execution of the restructuring measures, which is associated with such a phenomenon as the change-resistance, is not less important as a stage in the process of the formation of integrated structures. This phenomenon is able to significantly reduce the effect of restructuring and lead to undesirable consequences. The phenomenon is associated primarily with the fact that the staff, and possibly some of the company's managers, will explicitly or implicitly oppose to the restructuring processes. As a rule, that happens because of the fact that the habitual way of work is being broken, changes are coming about, aims and objectives are unclear for the staff, moreover, the employees begin to worry that these changes will lead to layoffs and other undesirable consequences for them.

That means that there is the necessity to carry out a study and to reveal the trends in the resistance to changes and to execute some actions for the reduction of this resistance. For this purpose we suggest to conduct a survey of the staff and the middle-level managers, as well as to interview the top-managers of the enterprises which are intended to be included into the holding structures. These measures will not only allow us to understand the attitude of the managers and the staff towards the restructuring, they will also become the instruments of informing about the aims and objectives of the restructuring, about the basic plans and prospects. That is informing the staff about the upcoming changes which is the main method of relieving stress and changing negative attitude towards the forthcoming restructuring.

Basing on the results of the comprehensive study of the enterprise, including the analysis of the results of its financial and economic activities and the estimation of the level of its economic efficiency, the evaluation of its strategic importance with the respect of the existing trends to resist the changes, we suggest to classify the enterprises (to divide them into groups). Depending on the group which the enterprise joins,

the decision whether to include it into the established holding or not to include will be made.

Therefore, it could be recommended to include into the holding the enterprises, which have great strategic importance, regardless of the level of their economic efficiency, the enterprises which have great strategic importance and medium or high economic efficiency as well, and the enterprises, which have little strategic importance but have obtained high economic efficiency. Other enterprises are not recommended to be include into the established holding structures.

When, after passing the aforesaid steps, we have selected some companies recommended for the inclusion into the holdings, it is necessary for each of the companies to make a decision on keeping or changing its organizational and legal form or on reconsidering the state's share stake in the company's capital in accordance with the acting laws.

Certainly, the establishment of holding on the basis of the companies with the state-owned share in the authorized capital should occur after the definition of the concept and after business-modeling of this holding. It can be a "vertical" holding or a "horizontal" one depending on the situation, but the decision on the choice of a particular business model must be reasoned.

Then there come the following necessary steps for the estimation of the predictive performance indicators of the established holding structure efficiency. These measures are necessary to verify the economic reasonability of the restructuring activities, since their execution requires significant term and financial resources.

After confirmation of the economic efficiency of the established holding with the participation of the certain companies the process of restructuring can be activated.

Conclusion

The described series of events - from defining the aims of restructuring and methods to achieve the projected economic benefit to the estimation of the projected economic effect from the establishment of the specific holding is graphically presented in Fig. 1 as an enlarged model of the mechanism of restructuring of enterprises with the state-owned share in the authorized capital.

This model can become the single methodological instrument for making decisions on the establishment of holdings, with the participation of selected enterprises from the public sector in Russia, with the help of this instrument it will be possible to execute the rational process of restructuring.

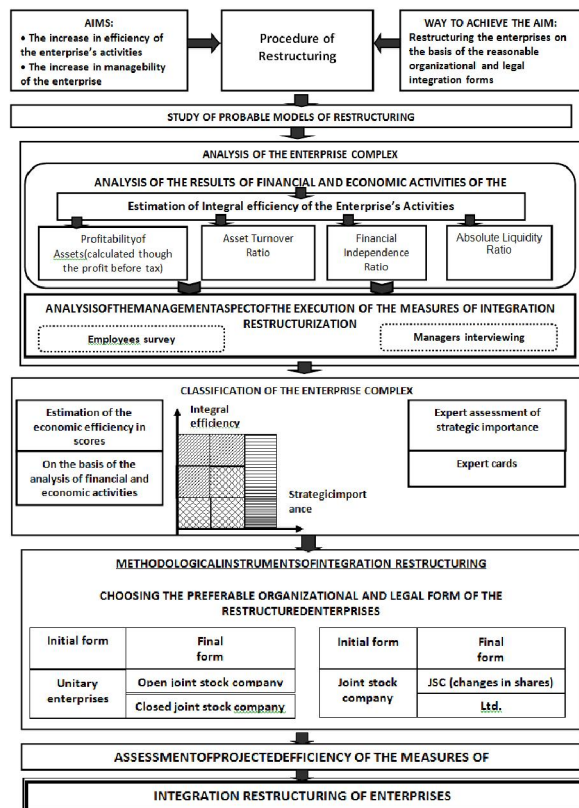


Figure 1. Enlarged model of the mechanism of restructuring of enterprises with the state-owned share in the authorized capital

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