

Features of Operation of the Russian Corporations in the Economic Turbulence Conditions

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Abstract: The object of increased attention of all the market participants is the activity of Russian corporations acting under the economic turbulence condition as the consequence the necessity of the prompt response to instability of the market environment arises. High rates of the business growth, sharpening of competition at the internal and international markets causes increased dependence of corporations on the external financing sources and may result in the loss of financial stability.

Key words: Corporation, corporate management, quality of corporate management, innovative activity, economic turbulence

INTRODUCTION

Financial viability of the economy in whole and each of the separate large industrial units acts as the main condition of successful implementation of reforms in Russia. Production industry is the key sector of the real economy of any country. The degree of industrial development to a large extent determines all main economic indicators: material wealth of population and quality of life, national security, efficiency of utilization of manufacturing facilities, etc. In the Russian Federation, the real sector of economy is represented by great number of industrial organizations featuring different organizational-legal forms of ownership and performing different kinds of activity, however, large organizations most frequently operate in the form of corporations.

Meanwhile, there is no consensus among researchers as to the term 'corporation'. Theoretical approaches to interpretation of the term 'corporation' representing the nature of development of the corporate style of management can be found in the studies of such researchers as I. Ansoff, I.I. Mazur, V.E. Maschenko, A.G. Porshnev, B.A. Reisberg, I.A. Khrabrova and V.V. Janov.

According to Part One of the Civil Code of the Russian Federation the term 'organization' is used by description of a legal entity that 'owns, controls or manages solitary property and is liable to the full extent of its property may in its own name purchase and exercise the property and personal non-property rights, incur obligations be subject to suit in its own name' (anonymous, 1944). However in the modern international theory and practice the substitute of the above-mentioned term is the term 'corporation'. In the Russian legislation,

the term 'corporation' is not used independently, except for designation of such term as 'state corporation', i.e., organization performing its activity according to special laws created for it only.

MATERIALS AND METHODS

Procedure: Within the study the common and special methods of scientific cognition were used: dialectic logic, system, structural and functional analysis, synthesis and comparison. The main approaches to interpretation of the concept 'corporation' that allow identifying the features intrinsic to corporations (Table 1).

According to the first approach represented by B.A. Reisberg, L.Sh. Lozovsky and E.B. Starodubtseva, a corporation suggests wide interpretation of a legal entity formed to achieve the objectives (increase in the market share, improvement of the product quality, strengthening of reputation, rise of stocks and shares, etc.) (Pikhtareva and Chernov, 2013). As a rule, corporations are established in the form of a joint-stock company.

The second approach consists in interpreting a corporation in a narrow sense as a form of organization providing for the shared ownership and management by the employed professional managers. Representatives of this approach are Ansoff (2005), Mazur *et al.* (2003) and Nikitina and Janov (2012). According to their definitions a corporation features the following attributes:

- The corporate property is formed by shares in the capital
- The shareholders control the operation of the corporations as the owners of it
- Managers possess the legal right of making managerial decisions

Table 1: Main approaches to definition of the term 'corporation' representing the nature of development of the corporate management type

Content of the scientific interests of researchers	Authors investigating the definition of the term 'corporation'	Criterion of approach to the term 'corporation'
Society, union, group of persons united by the common professional and class interests	Foreign words dictionary (2009)	Corporation is a legal entity established for achievement of strategic, tactic, financial and other goals
The aggregate of persons united for the joint activity and acting as an independent legal entity	Reisberg <i>et al.</i> (2007)	
Form of organization that is based principles of operation and incorporates the share capital, employed professional managers on which the management functions are focused	Ansoff (1999)	Corporation is a form of organization providing for shared ownership and management on the part of professional employed managers
Union of enterprises providing for the shared ownership, the functions of managing which are concentrated in the upper link of employed managers	Nikitina and Janov (2012)	
Organization with different kinds of activity and developed organizational structure headed by professional managers	Mazur <i>et al.</i> (2003)	
Socio-economic institution using the joint work of people for achievement of common goals	Porshnev, Rummyantseva, Solomatin, 2010	Corporation is a structure fulfilling the social function
Organization in the form of a legal entity founded on the basis of consolidated capital and performing some socially useful activity	Orekhov <i>et al.</i> (2008)	
The unified production-economic complex consisting of the of the independent economic entities on the base of stable internal relations and the center of the complex management	Sonkin (1999)	Corporation is the developed form consisting of core (parent company) and the internal structures
Affiliates and branches with different organizational-legal form within the parent company	Maschenko (2003)	

A number of researchers A.G. Porshnev, Z.P. Rummyantseva, N.A. Solomatin and S.A. Orekhov define a corporation as a socio-economic system fulfilling a certain social function (increase in the efficiency of the tax collection).

N.V. Sonkin and V.E. Maschenko consider a corporation as an organization featuring a developed organizational structure and consisting of the headquarters (parent company) and internal structures (affiliates, branches).

Mazur *et al.* (2003) provides the definition of a corporation that is maximally meeting the realias of the modern Russian economy. Mazur *et al.* (2003) understands by a corporation the profit oriented business that features:

- The developed organizational structure
- The dominant position at the 'own' market of the performed kinds of activity
- Staff of professional managers

Having summarized the reasoning of researchers one shall note that the key difference of a corporation as compared to an organization (enterprise) is that incorporation by the organizational-legal form acts a joint-stock company only, features a complex organizational structure and the corporate management style (Schmalen and Porshnev, 1996).

As a rule, the organizational structure of an organization of non-corporate type corresponds to the linear-functional type of management by which all units headed by directors in the relevant areas are subordinated to the general director of the organization.

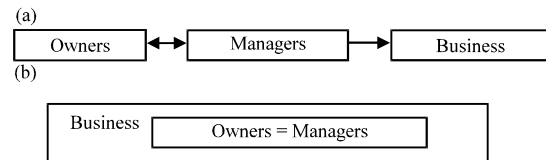


Fig. 1: Management patterns: a) Corporate management; b) Non-corporate management

By formation of organizational structure the Russian corporations took as the basis the western management model according to which the link between the president of the corporation and management board are the vice-presidents controlling their work and solving the relevant issues. The main advantage of this organizational structure consists in the fact that it excludes duplication of functions of units, the centralized control of separate trends of the corporate activity is exercised and the tasks set are solved in a more efficient way.

In case of the corporate management from the perspective of the management technology the property rights and the administrative authorities are differentiated while by non-corporate management the management of the company (enterprise) is performed by the owners themselves (Fig. 1).

By corporate management along with loss of the management functions the owners lose connection with business and the relations between the owners concerning the management issues are substituted by relations between the owners and the corporation.

RESULTS AND DISCUSSION

The JSC ‘AVTOVAZ’ and JSC ‘Togliattiazot’ are the Russian largest corporations and unlike the structure of management of other organizations are headed by presidents. At the same time in the corporations under consideration the management boards headed by vice-presidents operate in different directions which is not typical to organizations. In its turn, each administration of corporations has its branched structure consisting of centers, directorates, departments which also constitute the distinctive feature thereof.

The main content of the administration activity consists in development of the investment and credit policy, organization and development of the budget management system as well as in the strategic and investment planning. Operation of financial administration is related to provision of the corporation with financial resources, formation of the policy of the receivables and payables management and is aimed at increasing the efficiency of utilization of current assets and securing financial soundness. Financial administration acts as the centralized payer and recipient of funds on behalf of the corporation, maintaining accounting of accrual and fulfillment of obligations, performs functions relating to management of the corporation activity in the sphere of investments, financial risks and control of Foreign Exchange Transactions. This administration carries out financing of the financial activity of the corporation at the cost of the own and borrowed resources as well as by means of securities offering.

The corporate style of management is peculiar to the JSC ‘AVTOVAZ’ and JSC ‘Togliattiazot’ as the property rights and administrative authorities are separated, i.e., management is performed by professional employed managers. The rating of quality of corporate management of the JSC ‘AVTOVAZ’ is presented in Table 2.

Based on the results of the year 2009 the JSC ‘AVTOVAZ’ was assigned the rating corresponding to the developed practice of corporate management. The reasons that exerted positive effect on the level of the ranking score of the JSC ‘AVTOVAZ’ were approval by the board of directors of the new revision of the Code of Corporate Conduct of the JSC ‘AVTOVAZ’, compliance of the corporate information policy with the main principles of securing the shareholders’ rights of obtaining information about the corporation specified in the ‘Provision concerning the information policy of the JSC ‘AVTOVAZ’’. Besides, the requirement with respect to protection of information constituting the trade and business secret was met and control of disposal of the insider information was exercised.

Table 2: Rating of quality of the corporate management of the JSC ‘AVTOVAZ’

Years	Rating of the corporate management quality	Rating drift
2009	7	-
2010	8	↑
2011	8+	↑
2012	8+	-
2013	8+	-

Table 3: Rating of the quality of corporate management of the JSC ‘Togliattiazot’

Years	Rating of the corporate management quality	Rating drift
2009	7	↑
2010	7	-
2011	8	↑
2012	8+	↑
2013	8+	-

In 2010, the quality of the corporate management of the JSC ‘AVTOVAZ’ corresponded to the best practice of corporate management (level 8). The reason for the rise of rating was compliance with the corporate management principles embodied in the code of corporate conduct. The JSC ‘AVTOVAZ’ considers the corporate management system as the instrument of protection of rights and observance of interests of the own shareholders. The corporation created the committees by the board of directors on auditing, staff and remuneration, budget, restructuring, strategy that promote to increase in the performance.

The quality of the corporate management of the JSC ‘AVTOVAZ’ in 2011-2013 increased to the level 8+ and corresponded to the best practice of corporate management. The main condition of the quality improvement was performance of active measures aimed at improving the system of internal control of the financial-economic activity. The new corporate standard ‘Internal control in the JSC “AVTOVAZ”’ was updated and put into effect. The authorities concerning control of compliance with the procedures of internal control of the financial-economic activity of corporation were delegated to the internal control and audit system according to the code of corporate conduct. The set of measures within the area of the corporate management quality had a positive effect on the investment attractiveness, competitiveness and the level of financial stability of the corporation.

Rating of the corporate management quality as an internal factor representing the specific of the corporate operation is presented in Table 3.

In 2009-2010, the quality of the corporate management of the JSC ‘Togliattiazot’ corresponded to the developed practice of corporate management. The corporation featured the low risks of corporate management, observed the Russian laws in the sphere of corporate management, guidelines of the code of corporate conduct as well as kept in line with separate trends of the international best

practices. Strategic initiatives of the management board and shareholders of the JSC 'Togliattiazot' promoted to rapid development of the corporate management system.

Based on the results of the year 2011 the rating of quality of corporate management of the JSC 'Togliattiazot' was increased to the level 8 (Best practices of corporate management). The factors that affected the rating score of the corporation are: the moderately high level of organization of executive authorities, observance of the shareholders' rights and regulation of the dividend policy. Among the positive factors one shall also mention the high level of organization of the corporate social responsibility, disclosure of financial and nonfinancial information, moderately high level of general discipline by disclosure of information and high level of the information content of the corporate section on the web-site.

In 2012-2013, the developed practice of corporate management was proved with increase of the level up to 8+. The JSC 'Togliattiazot' provides the shareholders will all authorities concerning participation in the corporate management and studying the information about the operating results in accordance with the federal laws 'Concerning Joint Stock Companies', 'Concerning the Securities Market' and the regulatory legal acts of the federal executive authorities concerning the securities market. The positive aspects are high level of disclosure of financial information, organization of the system of risk management and monitoring of indicators of the financial-economic activity of the JSC 'Togliattiazot'.

All measures performed in the sphere of corporate management had a positive effect on the indicators of financial soundness of the JSC 'Togliattiazot' which is confirmed by the relevant calculations.

Summary

Thus, advantages of a corporation include:

- Independence of a corporation as a legal entity
- Shared (proportionally to capital) liability of the owners
- Legitimacy of transfer of ownership from some shareholders to others
- Centralized corporate management

Along with the main features peculiar to corporations one shall also distinguish a number of attributes that are also typical to them:

- Complex structure of the property complex
- reparation of financial accounting in accordance with international standards
- Business transparency, i.e., financial and information transparency of business

- Presence of consolidated accounts for the purpose of providing the general idea of the corporate operation in whole

CONCLUSION

In the course of investigation of approaches of the Foreign and national researchers to interpretation of the 'corporation' categories the essential characteristics of a corporation expressed in the presence of the complex organizational structure and the corporate management style were distinguished.

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