

## THE INFLUENCE OF GOVERNMENT AND MUNICIPAL AUTHORITIES ON THE CORPORATE SECTOR<sup>1</sup>

A INFLUÊNCIA DO GOVERNO E DAS AUTORIDADES MUNICIPAIS NO SETOR CORPORATIVO

LA INFLUENCIA DE LAS AUTORIDADES GUBERNAMENTALES Y MUNICIPALES EN EL SECTOR CORPORATIVO

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**Resumo:** Este artigo examina o papel das autoridades públicas no desenvolvimento do setor privado. O autor enfatiza a ideia de que a participação do Estado no desenvolvimento da área empresarial deve ser reguladora. Assim, o setor corporativo se desenvolve mais dinamicamente e pode resolver questões dentro da esfera de competência do estado. O artigo resume a experiência dos países desenvolvidos para promover o setor empresarial, identificando a forma mais eficiente e promissora. O artigo tem como foco principal o reforço do papel do governo no desenvolvimento da esfera empresarial na criação do ambiente institucional. Além disso, o artigo explica o papel dos municípios no desenvolvimento do setor empresarial, representam os obstáculos mais significativos para a expansão do papel.

**Palavras-chave :** setor privado, autoridades estaduais e municipais, estratégia corporativa, interação de empresas e governo, empresa pública, setor público, pequenos negócios.

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**Abstract:** This article examines the role of public authorities in the development of the private sector. The author emphasizes the idea that the state's participation in the business area development must be regulating. So the corporate sector develops more dynamically and may solve issues within the sphere of state competence. The author summarizes the experience of developed countries to promote the business, identifies the most efficient and promising form. The author sees the main focus in enhancing the role of government in the development of the business sphere in the creation of the institutional environment. Also the article explains the role of municipalities in business development, represent the most significant obstacles to the expansion of the role. Also the article explains the role of municipalities in business development, represent the most important problems of interaction between them

**Keywords:** private sector, state and municipal authorities, corporate strategy, the interaction of business and government, public corporation, public sector, small business.

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**Resumen:** Este documento examina el papel de las autoridades públicas en el desarrollo del sector privado. El autor enfatiza la idea de que la participación del estado en el desarrollo del área de negocios debe ser reguladora. Por lo tanto, el sector corporativo se desarrolla de forma más dinámica y puede resolver problemas dentro de la esfera de competencia del estado. El artículo resume la experiencia de los países desarrollados para promover el sector empresarial, identificando la forma más eficiente y prometedora. El enfoque principal del artículo es el fortalecimiento del papel del gobierno en el desarrollo de la esfera corporativa en la creación del entorno institucional. Además, el artículo explica el papel de los municipios en el desarrollo del sector empresarial, representan los obstáculos más importantes para la expansión del papel.

**Palabras clave:** Sector privado, autoridades estatales y municipales, estrategia corporativa, negocios y interacción gubernamental, empresa pública, sector público, pequeña empresa.

The global crisis of 2008 highlighted the extremely important role of the state in overcoming the negative consequences that private companies experienced in their development process. Primarily the impressive financial support was received by banks. It allowed them to neutralize the threat of a decrease in business activity, to help in maintaining their capitalization. Another group was formed by system-forming enterprises, in relation to which anti-crisis programs were adopted in many countries, designed to preserve their economic potential in the conditions of falling demand and growing uncertainty in economic relations.

Thus, the consequences of the crisis allow to convince the majority of market participants that the state can act not only as a regulator of market relations or as a guarantor of the rights of citizens not included in the production sphere, but also as an active participant in business projects and even actively promote individual business participants in acquiring additional advantages. And if before the strategic plans of enterprises practically did not take into account the factor of participation of the authorities in the affairs of private companies, today it is taken into account in their acts as an integral component.

The corporate sector operates on the basis of its own resources, or carries out substitutions in free markets, not providing themselves with guarantees from the public authorities. Participating in the development of budgetary funds, for example, in the form of competitive placement or auction, the corporate unit does not receive any advantages over other entities, being limited by the terms of the concluded contract. As a rule, the share of

the state and municipal order in the corporate entity's business portfolio does not exceed half of its assets.

Starting in 2007, a clearly defined public sector of the economy began to form in Russia, which, by its scale, began to approach to the corporate sector. A significant part of this sector was formed by transferring a certain part of the assets of private companies to state-controlled commercial structures. It was in 2007 that the role of the state in Russia began to transform: from the function of the regulator of market relations to direct participation in them as an active counterparty. The basis of this sector was formed by *public corporations* and joint-stock companies with 100% public involvement.

However, over the past 10 years there is not the most favorable opinion on the activities of this category of enterprises.

A number of problems are the consequence of these trends:

1. The insensitivity of state companies to the performance of programs assigned to them and the discrepancy between the actual values and the targeted indicators.
2. Spontaneity in the choice of projects being implemented, lack of a coherent system of priorities.
3. Lack of strict control over the use of public resources.
4. Non-inclusion of state corporations in competitive relations with private business.
5. Actual monopolization by state corporations of a number of branches of the national economy.

But the biggest disadvantage of this form of organization is chronic losses that do not affect the dividends of the top managers of these companies, as the Account Chamber of the Russian Federation has reasonably and repeatedly pointed out. For example, only, according to the official data the public company “Rosnano” received a loss of 8.3 billion rubles in the first half of 2016 [1].

Crisis trends in the development of the economy 2014-2016 revealed a striking discrepancy in the market positions of state-owned companies and business enterprises, whose degree of protection from negative trends in world markets has become more tangible. At the same time, the state began to noticeably reduce its regulatory participation in the development of the corporate sector, while simultaneously increasing fiscal pressure on the business, placing regional and municipal budgets in dependence on tax deductions

from local enterprises. As for large companies with public involvement, the revenues from their activities concentrated in their budgets of a city of federal significance - Moscow and St. Petersburg, which assumed the head offices of most vertically integrated companies.

These tendencies contributed to the activation of corporate selfishness, the refusal to participate in socially useful projects, the reduction of charitable practices, especially at the regional level. This trend is especially strong for small businesses, whose number has gradually declined since 2015.

Nevertheless, an effective union of state authorities with private business is not only possible, but also necessary. There remain certain forms that reflect the need of private companies in active interaction with public authorities:

- The demands for government support (providing tax advantages, loans, etc.);
- Opportunity to participate in socially useful projects;
- The possibility of participation in obtaining a contract for the execution of state and municipal orders;
- Interaction in the framework of PPPs;
- Assistance of the state in promoting the enterprise's products to foreign markets, incl. and international;
- Protection against unfriendly takeovers, raids, etc.

Today, in Russia for private companies, the state performs several distinctive functions: fiscal (collection of taxes); control (control over the implementation of legislative requirements); stimulating (provision of concessional loans, appropriations for the performance of obligations) and arbitration (settlement of disputes). As practice shows, the manifestation of a particular function depends on the type of enterprise, its location, industry affiliation, and its age, i.e. position on the life cycle curve. The younger organizations are more likely to seek the propensity of the state than the companies that have already fallen into the market.

Unfortunately, in Russia, the relations between the authorities and the corporate sector are not symmetrical. The interest of the authorities in the corporate sector is embodied mainly in the use of its taxes and transferring him the number of social obligations. Withheld by the Central Bank from 2014, the key rate does not allow private businesses to use available loans to achieve their financial goals.

In Russia, the burden on small businesses not weakening, despite assurances of state authorities in the need to support this sector of the national economy. Among the most common reasons for this are:

1. Insufficiently high share of incomes of small businesses in the structure of budget revenues at all levels. The enterprises of small business officially employ more than 17 million people, of which 5.4 million are engaged in the sphere of individual entrepreneurial activity. (30.6%), enterprises employ 12.4 million people. (69.4%). The share of small business in GDP is 20% [2]. In comparison, in China, the contribution of small businesses is estimated at 70%, and the number of employees in it is 56-60%. Approximately such proportions are observed in the leading European countries.

2. The *overwhelming concentration* of small enterprises in wholesale trade and services is the argument in favor of the detached attention of the authorities to the fate of such enterprises, which are not oriented to the production of breakthrough technologies or export products.

However, the importance of small business for the development of modern society is invaluable. The development of small business contributes to solving the problem of employment and improving the quality of market services. Small business support in most developed countries relies on significant state investment in the formation of an institutional environment that provides technological, personnel and material support to enterprises of this group. Unfortunately, within the framework of this direction, the Russian government is implementing measures that are clearly insufficient. All this contributes to avoiding small business do not interacting with the state, reorienting own strategies to protection and reaction .

One of the most popular areas of state participation in the development of the corporate sector is the formation of an institutional environment. Orientation towards the creating an institutional environment means a focus on needs of specific entrepreneurs who must have the ability to receive technical, financial or advisory assistance from the government at the time of application. A information portal, providing an operational link between all participants of business processes can be the material basis for such an environment. This portal should unite sites for conducting state and municipal purchases, a permanent advisory service, information about ongoing competitions, programs implemented with the participation of the public authorities, etc.

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