



Evolution of Corporate Governance in Russian Transparent Market Environment

Lev Ushvitskiy¹, Evgeniy Didenko^{1*}

¹ Department of Economic Security and Audit, Institute of Economics and Management, North-Caucasus Federal University, Stavropol, RUSSIA.

*Corresponding Author (Email: d_e_civile_law@mail.ru).

Paper ID: 13A1D

Volume 13 Issue 1

Received 23 July 2021

Received in revised form 19 October 2021

Accepted 26 October 2021

Available online 01 November 2021

Keywords:

corporate governance;
investment activities;
transparency of markets;
international economic space ; corporations disclosure ; Investment strategy.

Abstract

This article analyzes the transparency of Russian corporations' activities. It defines the importance of the principle of transparency and openness of markets as one of the key ones for the integration of Russian corporations into the international economic spaces. The ways of increasing the clarity of the activities of Russian corporations through the adoption of several government measures are proposed to encourage corporate disclosure. To increase transparency of Russian corporations' activities, it is proposed to introduce into the legislation on corporations the norms obliging the disclosure of information about beneficial owners of the corporation.

Disciplinary: Economics & Management (Audit).

©2022 INT TRANS J ENG MANAG SCI TECH.

Cite This Article:

Ushvitskiy, L., Didenko, E. (2022). Evolution Of Corporate Governance In A Transparent Market Environment. *International Transaction Journal of Engineering, Management, & Applied Sciences & Technologies*, 13(1), 13A1D, 1-10. <http://TUENGR.COM/V13/13A1D.pdf> DOI: 10.14456/ITJEMAST.2022.4

1 Introduction

One of the leading global trends in the development of corporate governance is the creation of transparent economic space. The Organization for Economic Co-operation and Development (OECD) Principles of Corporate Governance, defining the main objective of corporate governance, enshrine as such "the promotion of an environment of trust, transparency and accountability that is necessary to stimulate long-term investment, financial stability and business integrity" [1, 7].

Implementation of the principle of transparency in the activities of corporations is one of the critical elements required for the integration of corporations from different states into a single economic space. Since it is thanks to transparency that an understanding of the activities of

corporations is created, the possibility of doing joint business, the creation of transnational corporations is facilitated, the mobility of assets and cash flows increases, and an inflow of additional investments is carried out [14].

Financial stability and investment are direct indicators of financial soundness. Economically developed countries, members of the OECD and the G20, believe that these indicators directly depend on the environment in which corporate governance is carried out. Their growth is associated with the development of trust, transparency, and responsibility in the market space [9].

At the same time, in our opinion, the primary category in this context is transparency, which stimulates both trust and responsibility. The transparency of corporate governance and the corporation's overall business creates an understanding of the direction of the company's development among investors and other stakeholders and creates an opportunity to analyze the prospects for the growth of the corporation. At the same time, corporation bodies, understanding the "openness" of their activities, will approach more responsibly in the performance of their official duties [10].

On one hand, corporate governance should contribute to the transparency of its economic activities, which is expressed in the publication of important information about its activities. On the other hand, the corporate governance mechanism should be transparent and understandable for investors and other stakeholders.

2 Materials and Methods

Within the framework of the scientific research, the dialectical method of cognition was used, which makes it possible to assess the relationship of various elements of corporate governance with each other, as well as with other economic and legal categories.

General scientific methods of theoretical knowledge were used: methods of statistical and logical analysis and synthesis - when considering the implementation of the principle of transparency of corporate governance, as well as its impact on the creation of a common basis for corporate governance for corporations of different states, the comparison method - when analyzing Russian and foreign economic structures, methods deduction and generalization - in the formation of conclusions based on the results of the study and determination of ways to increase the openness of the activities of Russian corporations, technologies of structural and graphic modeling - to visually display the sequence of ongoing economic analysis.

When writing this article, official sources of statistical information, official banks of court decisions, information and reference systems of legislation, sources of information on the activities of legal entities recognized in economic circulation and judicial practice were used.

3 Results and Discussion

One of the primary OECD standards for increasing the transparency of the economic space was the requirement for member countries to introduce in their legal order effective legal mechanisms to disclose information about beneficial owners of companies [13].

According to a study of the Russian regional network for integrated reporting for 2018, the activities of 59% of Russian companies are non-transparent. And only 17.2% of corporations disclose information about their activities over the established legislative standards. More than 1000 large and medium-sized enterprises were selected for the study, incl-backbone and state companies [2].

In the Russian Federation, the economic activity of legal entities is not open. Most of the companies are limited liability companies - 96.7% (of all commercial organizations), which do not have an obligation to disclose information about their activities (Table 1).

Table 1: The number of operating commercial corporations in the Russian Federation as of 09/01/2021

№	Organizational and legal form of the corporation	Quantity
1	limited liability company	2 640 152
2	joint-stock company	57 986
3	production cooperative	8 962
4	peasant (farm) economy	6 023
5	limited partnership	253
6	full partnerships	210
7	economic partnership	<50

The lack of disclosure obligations for most corporations in the Russian Federation does not mean that they cannot publish important information about their activities on their initiative.

To verify the thesis about whether corporations disclose information on their initiative, we analyzed data available in open sources (including SPARK-Interfax) on ten randomly selected limited liability companies (from now on referred to as LLC) operating in the field of the Food Industry [6]. The research objects were enterprises, regardless of the volume of activities and the staff (the minor enterprise is ten people, and the largest is 637).

As the subject of disclosure, we analyzed the investment and another development strategy of the corporation, information on material transactions, information on the model and practice of corporate governance, corporate documents (constituent documents, decisions of general meetings of owners and corporate governance bodies, critical internal documents, lists of affiliates, etc. .p.), as well as financial statements for the last three years (which at the time of the study should have been submitted to the authorized state bodies) [7, 12]. The analysis results are shown in Table 2.

If these documents and information are available, it is possible to assess the effectiveness of the corporate governance methods used in the company and the prospects for its development in general.

The survey results show that none of the corporations discloses corporate documents, material transactions, and the used corporate governance model and practice. Only in 2 out of 10 corporations on companies' websites can you find data on the company's economic strategy. Then, this is not a document adopted/approved by the corporate governance bodies, but only information about the proposed paths of development of the corporation, which is not an investment, but an

overview purpose. They provide accounting statements of corporations, according to Rosstat and the Federal Tax Service.

Table 2: Disclosure of information about their activities by Russian LLCs

Corporation name	Documents and information disclosed by the corporation			
	Corporate documents	Investment strategy/material transactions	Corporate governance model and practice	Financial statements
LLC «Mechta»	-	-	-	+
LLC «Lider»	-	-	-	+
LLC «Kamenskiy Maslozavod»	-	-	-	+
LLC «Molochnyy Dom»	-	-	-	+
LLC «Torgovyi Dom»	-	-	-	+
LLC «Yel'nikovskoye Raypo «	-	-	-	+
LLC «Agrofirma Krimm»	-	+ / -	-	+
LLC «Selyanin»	-	-	-	+
Lopatinskii Bekon LLC	-	+ / -	-	+
LLC «Vertunovskoe»	-	-	-	+

Thus, LLC, the most common organizational and legal form of corporation in Russia, does not have an obligation to disclose important information about its economic activities, incl. corporate governance. On their own, they do not take the initiative to disclose such information.

In our opinion, to stimulate the transparency of corporate governance, it is necessary to carry out a set of measures at the state level, including:

- the establishment of measures of state support for corporations in which the activities of corporate governance bodies are transparent, the creation of criteria for "openness" for such support measures;
- development of draft corporate documents containing an example of the description in the reports of the corporation, the existing model and practice of corporate governance, as well as other significant aspects of corporate governance;
- introduction into the legislation on corporations of norms obliging to disclose information about the beneficial owners of the company;
- dissemination of information in the media about the need to disclose information about corporate governance to create a transparent economic space;

It is necessary to establish clear criteria for recognizing the activities of corporations as transparent, the observance of which is necessary to obtain government benefits.

First, the corporation should disclose information (at least summarized) about the main areas of its activities, the existing business model, and investment strategy. Of course, we are not talking about the disclosure of know-how or other production secrets. In this case, the goal is to create a shared understanding among investors and other stakeholders of the prospects for the firm's development.

Then, documents/information should be published that reflect the competence of the governing bodies of the corporation, established by the constituent and other corporate documents, and a list of persons included in the governing bodies of the corporation. Separately, you should reflect information about the affiliates of the corporation.

In our opinion, in addition to the formal reflection of information about the above persons, it is also necessary to describe the existing corporate governance model and practice in the corporation.

These economic categories are interconnected - the corporate governance model forms a system of interrelated elements of the corporate governance mechanism, and the corporate governance practice reflects the efficiency and effectiveness of the existing model [8].

Thus, summarizing, we can say that the model and practice of corporate governance show the effectiveness of the existing corporate process of organizing activities based on the interaction of the subjects of corporate governance with each other and with other stakeholders.

In the course of the analysis of the reporting of various Russian corporations, it was found that, as a rule, attention is paid to the model and practice of corporate governance only in large holding groups.

Thus, Sberbank PJSC reflects in its annual reports the functional relationship of all corporate governance entities existing in the corporation, with the help of which it is possible to determine the nature of the relationship between the owners of the corporation represented by the general meeting of shareholders and other management bodies [3]. Thus, this system is essentially a corporate governance model.

As a characteristic of this system, Sberbank indicates in the reports the measures are taken to improve it (for example, the introduction of electronic voting procedures for shareholders, the formation of up to 1/3 of the Supervisory Board by independent members, the functioning of the committee for interaction with minority shareholders, etc.).

In addition, the corporation publishes in its annual reports information on the number of participants in the annual meeting of shareholders (for the reporting and previous year), the presence of a quorum, and the number of persons who voted electronically (Interfax, 2020). Also, Sberbank publishes the results of sociological research of a survey of minority shareholders on satisfaction with the exercise of their rights as owners of bank shares, which indicates that there are additional guarantees for the owners of the corporation [14].

The above factors characterizing the corporate governance model at Sberbank also reflect the practice of implementing various elements and methods of corporate governance.

In the annual reports of PJSC Gazprom, a separate subsection, "Model of corporate governance in PJSC Gazprom," is highlighted, reflecting the essential aspects of the model and

practice of corporate governance (information transparency, the priority of shareholders' rights, etc.) [5]. Furthermore, as in the reports of Sberbank, the functional connection of all subjects of corporate governance is disclosed.

Thus, revealing the content of the model and practice of corporate governance, it is necessary to reflect the nature of the relationship between the governing bodies of a corporation, the main features that characterize corporate governance in a given company, and the prospects for its development.

The third block of information published by the corporation should be associated with the concluded significant transactions in the last two years of the firm's activity. For a uniform approach to understanding material transactions, one can take large transactions provided for by the legislation on business entities (the transaction price is more than 25% of the book value).

At the same time, the material terms of such a transaction should be published, as well as the presence/absence of its approval by the relevant bodies of the corporation and the results of voting on approval.

The availability of information on the most significant transactions allows one to evaluate the strategic partners of the corporation to determine the main areas of spending. The results of voting on the approval of such transactions reflect the presence/absence of unanimity in the activities of the corporate governance bodies.

The list of information proposed for disclosure and possible state support measures for corporations for this is presented in Figure 1.

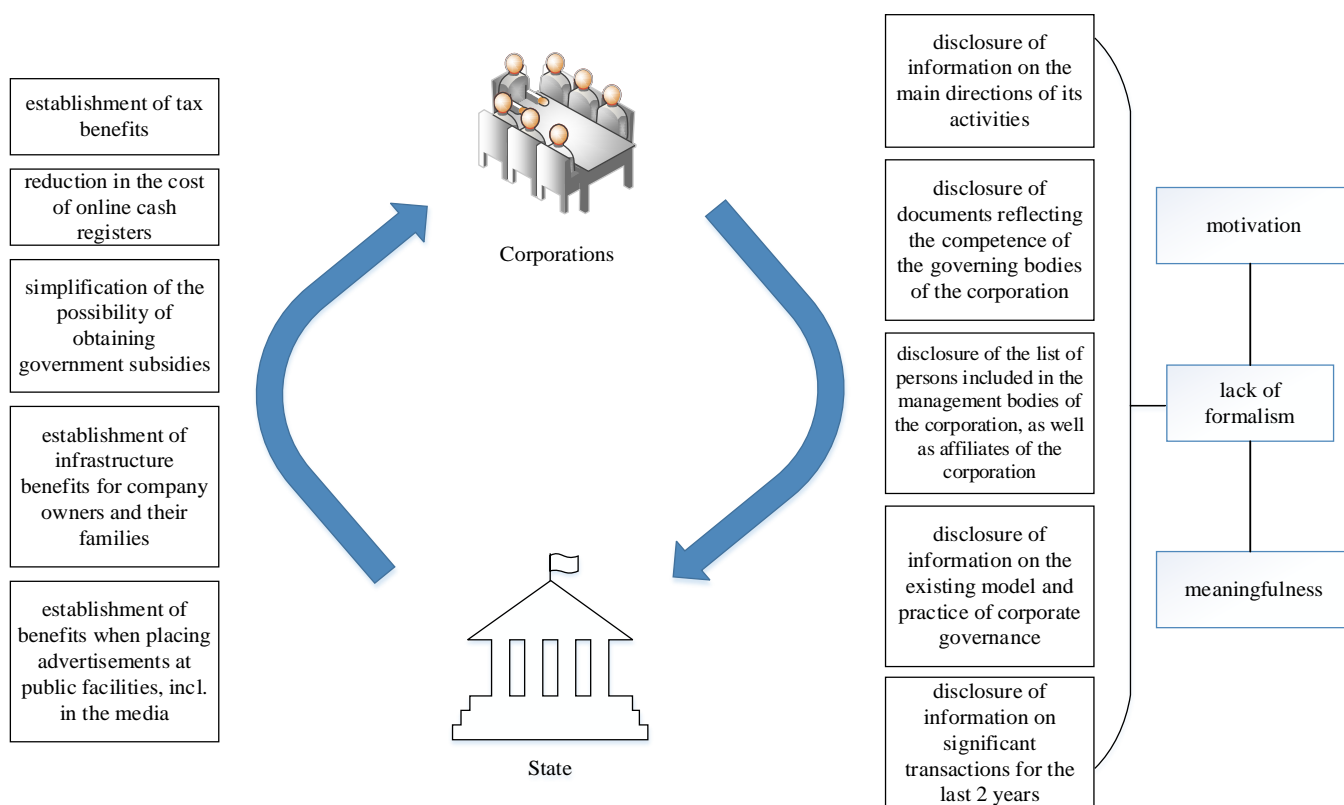


Figure 1: Government Measures to Encourage Corporate Disclosure.

The disclosure by the corporation of all three blocks considered above will be the basis for the provision of state benefits to it.

In addition to government measures to encourage disclosure, there should also be mandatory disclosure measures.

The main one, in our opinion, in the area of disclosure of information on corporate governance, is information about the actual beneficiaries of the corporation. The need to disclose such information has been repeatedly stressed by the OECD. For example, within the framework of the OECD "global forum" that we considered at the beginning of this paragraph, the commonwealth of states adopted that one of the basic standards of corporate governance is the introduction in countries of legal mechanisms for the disclosure of information on beneficial owners of corporations [13].

Also, as the main anti-corruption measures, the OECD recommends that the governments of states introduce mandatory requirements for disclosing certain information about companies, incl. on the issues of "actual (beneficial) owners" [9].

The availability of information about the real owners of the corporation allows investors and other interested parties to analyze the activities of the "real" owners, their experience in other corporations, and the success of their business. On the other hand, in the event of damage to the corporation's interests, through the approval of unfavorable transactions, bringing the company to bankruptcy, etc., it is also possible to present claims against the owners of the corporation [11].

State bodies, having information about the owner of the corporation, can analyze, in established cases, the flow of funds in his accounts, prevent actions from evading taxes, withdrawing funds to offshore. Which is impossible in the absence of information about such a person (Figure 2).

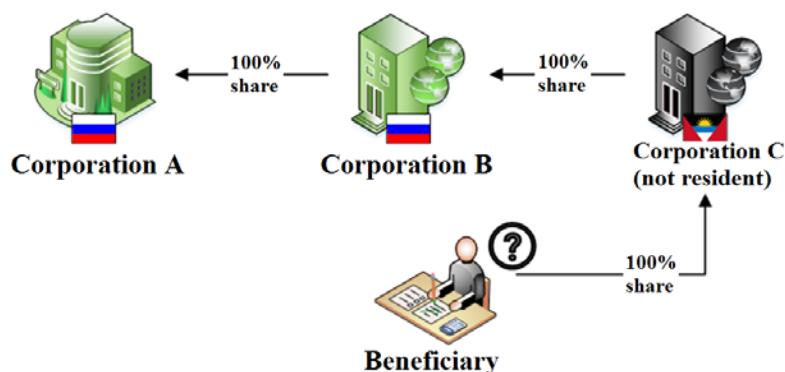


Figure 2: Indirect ownership of Russian corporations through offshores

Information about the company's actual beneficiaries should be publicly available so that any interested parties can use it. The possibility of obtaining such data only through special requests creates unreasonable bureaucratic obstacles, does not prevent the corporation from evading information even at the request of state bodies, despite the measures of responsibility. So,

article 19.7 of the Code of Administrative Offenses of the Russian Federation provides for punishment for legal entities for failure to provide information to state bodies for 3 to 5 thousand rubles. However, such measures are unlikely to be a significant obstacle to those involved in asset stripping schemes or tax evasion schemes [4].

At the same time, information should be explicitly disclosed about individual owners and not about legal entities participating in the chain of ownership of the corporation.

Based on the above facts, we consider it necessary to enshrine in the legislation on corporations of Russia the obligation for all legal entities, regardless of their organizational and legal forms, to disclose information about their actual beneficiaries, individuals. Even if the latter owns the company through a chain of other legal entities, regardless of the number of these "links."

In addition, it is necessary to establish corresponding measures of responsibility for the non-fulfillment of this obligation, entailing the administrative suspension of the corporation's activities.

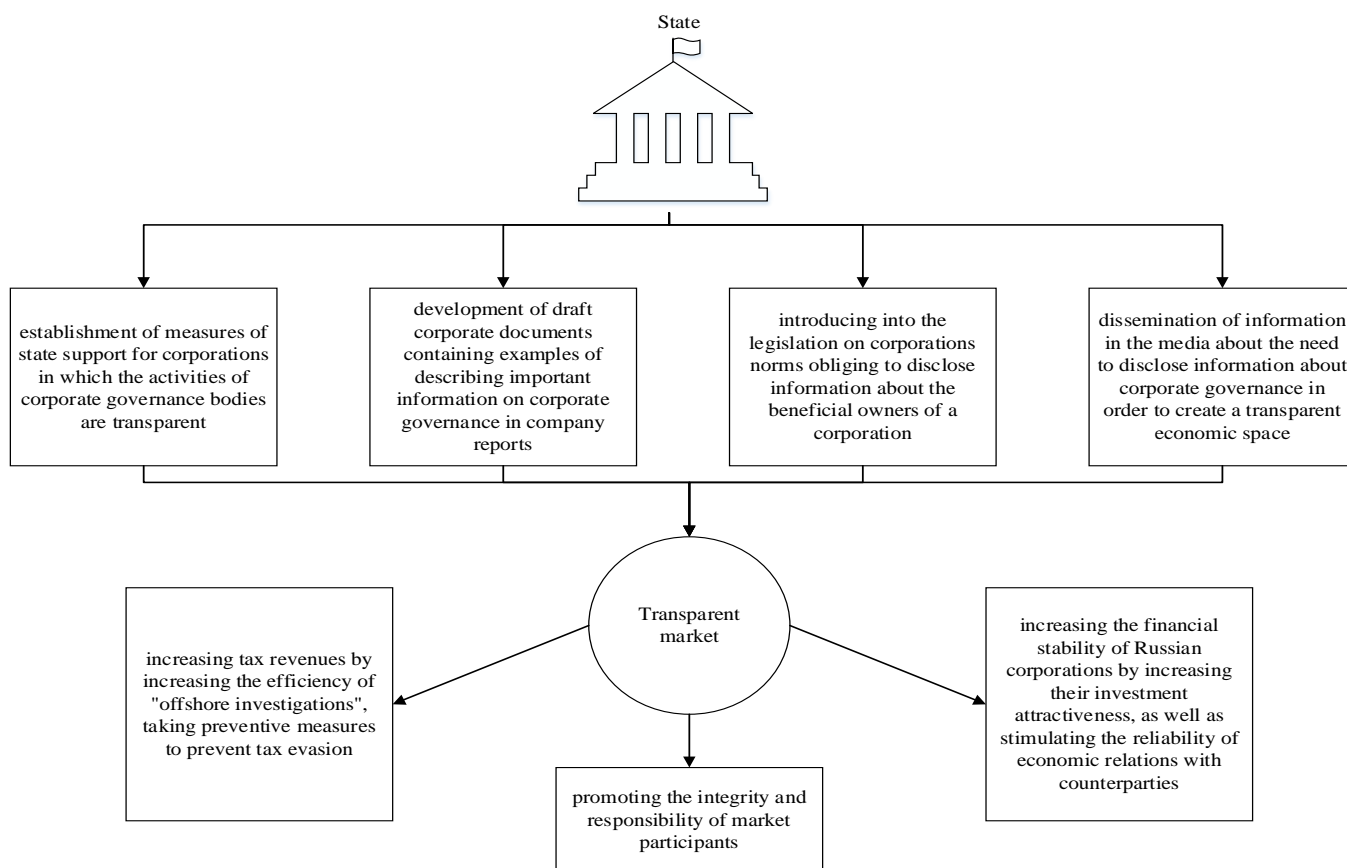


Figure 3: Government Measures to Promote a Transparent Market in Russia

The final state measure to increase the transparency of the activities of corporation bodies we propose is the dissemination of information in the media about the need and importance of disclosing information about organizations' economic activities and corporate governance. In addition, the publication of such information can be carried out on state portals on the Internet.

In such publications, it is necessary to substantiate why the transparency of corporate activities will have a beneficial effect on the economic environment and improve the welfare of both the state and organizations.

The most significant positive factor for the state is the possibility of increasing tax revenues since the effectiveness of "offshore investigations," preventive measures of the state to prevent tax evasion will increase. For Russian, corporations increase their financial stability. On the one hand, it improves investment attractiveness, which creates an opportunity for a corporation to use capital more efficiently by attracting additional investments, incl. foreign, on the other hand - the transparency of economic activity contributes to the creation and strengthening of economic ties with counterparties (suppliers, creditors, banks). Both investors and counterparties have the opportunity to analyze the performance of Russian companies performance and the effectiveness of the existing corporate governance mechanism, i.e., and it becomes possible to assess the prospects for the development of corporations.

To increase the openness of the activities of Russian corporations, the following set of measures is proposed, the adoption of which should be carried out by authorized state bodies (Figure 3).

These measures are not exhaustive, and it is possible to use other incentive measures to promote the transparency of the activities of Russian corporations. However, in our opinion, these government measures are the most effective at the first stage of "building" a transparent market.

4 Conclusion

Based on the analysis results, it was established that one of the leading global trends in the development of corporate governance is the creation of transparent economic space. Such a space stimulates the conscientiousness and responsibility of turnover participants, increases the investment attractiveness of corporations, increases government revenues from taxation, and facilitates the integration of various corporations into a single economic space. Because, thanks to transparency, corporations of different states develop an understanding of their activities and increase trust in each other. In the Russian Federation, the economic activity of legal entities is not open. Most of the companies are limited liability companies - 96.7% (of all commercial organizations), which do not have an obligation to disclose information about their activities. According to the study results, it was found that these corporations do not disclose information about their financial and economic activities voluntarily. For increasing transparency of Russian corporations' activities, it is proposed to introduce into the legislation on corporations the norms obliging the disclosure of information about the beneficial owners of the corporation. These measures are not exhaustive; it is possible to use other incentive measures to promote the transparency of the activities of Russian corporations. However, in our opinion, these government measures are the most effective at the first stage of building a transparent market.

5 Availability of Data and Material

Data can be made available by contacting the corresponding author.

6 Acknowledgement

The reported study was funded by RFBR, project number 20-310-90009\20.

7 References

- [1] OECD. (2013). Anti-corruption Reforms in Eastern Europe and Central Asia Progress and Challenges 2009-2013. Russian version.
- [2] Bulyga, R.P., Safonova, I.V. (2019). Information transparency: approaches to assessment, key characteristics, trends. *Accounting. Analysis. Audit.* 6.
- [3] RussGov. (2021). Center for disclosure of corporate information of PJSC "Sberbank". Availableat: <http://www.e-disclosure.ru/portal/files.aspx?id=3043&type=2>.
- [4] RussNews. (2021). Code of the Russian Federation on Administrative Offenses of 30.12.2001 N 195-FZ. Russian newspaper, N 256, 31.12.2001.
- [5] RussGov. (2021). Corporate Information Disclosure Center of PJSC Gazprom. <http://www.e-disclosure.ru/portal/company.aspx?id=934>.
- [6] RussGov. (2021). Counterparty verification SPARK-Interfax. <http://www.spark-interfax.ru>.
- [7] Jarovoi, D.O. (2019). Practice of corporate governance principles of companies of Altai Territory. *Economy. Profession. Business.* 2.
- [8] Litvintseva, G.P., Gakhova, N.A. (2013). The relationship between corporate governance models and the level of innovation activity in different countries. *Ideas and ideals.* 1(15).
- [9] OECD. (2016). Principles of Corporate Governance. DOI: 10.1787/9789264252035-ru.
- [10] Rosstat. (2020). Provision of accounting data at the request of users, https://www.gks.ru/accounting_report.
- [11] S&P. (2014). S&P report: Midsize UK firms seek new funding sources. <https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/leveraged-loan-news/sp-report-midsize-uk-firms-seek-new-funding-sources>.
- [12] FTS. (2020). State information resource for financial statements, <https://bo.nalog.ru/>.
- [13] OECD. (2019). Transparency and Exchange of Information for Tax Purposes Multilateral Co-operation Changing the World. Global Forum 10th Anniversary Report.
- [14] Wasseem, M. (2015). Political Risk Guarantees and Capital Flows: The Role of Bilateral Investment Treaties. *Economics*, 9.



Professor Dr. Lev Ushvitskiy is Professor and Director of the Institute of Economics and Management, Head of the Department of Economic Security and Audit, North-Caucasus Federal University. He holds a Doctor of Economics. His research interests are Economics and Management of the National Economy.



Evgeniy Didenko is a Postgraduate Student of the Direction of Training Economics, Profile "Economics and Management of the National Economy", Department of Economic Security and Audit, Institute of Economics and Management, North-Caucasus Federal University. His research interests are Government Measures to Regulate Economic Processes.