

The Role of Public Companies in Creating a Platform for Economic Growth in Saint Petersburg

Kuznetsov, Sergey V.; Rastova, Yuliya I.; Sushcheva, Natalia V.

Veröffentlichungsversion / Published Version

Zeitschriftenartikel / journal article

Empfohlene Zitierung / Suggested Citation:

Kuznetsov, S. V., Rastova, Y. I., & Sushcheva, N. V. (2018). The Role of Public Companies in Creating a Platform for Economic Growth in Saint Petersburg. *Baltic Region*, 10(1), 37-55. <https://doi.org/10.5922/2079-8555-2018-1-3>

Nutzungsbedingungen:

Dieser Text wird unter einer CC BY Lizenz (Namensnennung) zur Verfügung gestellt. Nähere Auskünfte zu den CC-Lizenzen finden Sie hier:

<https://creativecommons.org/licenses/by/4.0/deed.de>

Terms of use:

This document is made available under a CC BY Licence (Attribution). For more information see:

<https://creativecommons.org/licenses/by/4.0>

THE ROLE OF PUBLIC COMPANIES IN CREATING A PLATFORM FOR ECONOMIC GROWTH IN SAINT PETERSBURG

*S. V. Kuznetsov*¹
*Yu. I. Rastova*²
*N. V. Sushcheva*²



Saint Petersburg has a special mission in delivering national development priorities, ensuring sustainable economic growth, and commercializing R&D. This necessitates research on the situation in the corporate sector, including investment potential and propensity to invest. The authors estimate the readiness of Saint Petersburg public companies to employ investment tools in delivering development strategies, which determine to a large extent the competitiveness of the city's economy. This article presents a study into the response of twenty local public companies to changes in the economy and their ability to stay efficient and preserve investment potential in volatile economic conditions. The measures taken by the companies are considered as inert and inefficient. The authors surveyed managers from 70 Russian non-public companies, who confirmed the hypothesis that businesses are interested in investing in the earning assets (securities) of other companies to receive interest (dividends). The respondents tend to associate the risk of such investments with the issuer's corporate control and corporate governance, which often fall short of best practices. The authors conclude that there is a need to improve knowledge of corporate relations, which affect competitiveness and the raising of funds necessary for sustainable economic growth in Saint Petersburg.

¹ Institute of Regional Economic Problems of RAS,
38 Serpuhovskaya St., Saint Petersburg,
190013, Russia.

² Saint Petersburg State University of Economics,
21 Sadovaya St, Saint Petersburg,
191023, Russia.

Submitted on April 16, 2017

doi: 10.5922/2079-8555-2018-1-3

© Kuznetsov S. V., Rastova Yu. I.,
Sushcheva N. V., 2018

Keywords: economic growth, strategy for regional socioeconomic development, investment resources, public joint-stock companies, corporate governance

Introduction

With a population of one million people, Saint Petersburg is the economic centre and the only agglomeration in Russia's North-West. The city experiences scattered industrialisation and economic space polarisation. Saint Petersburg's influence on the national economic space is constantly increasing [1, p. 111; 116].

Buoyed by investment, Saint Petersburg is the fourth strongest regional economy in Russia [2].

The city's coastal location, large sales market, and a number of other factors have translated into investment attractiveness and investment flows from developed economies [3, p. 128]

However, specialists from the Expert RA rating agency report as follows. The current period of growing investment risks has been the longest since observations began in 1996. As a result, the localisation of international consumer goods — primarily automobile — production has turned into a threat rather than a benefit for the city's development. Investment in defence is also past its peak [4].

There is an urgent need to solve the city's economic problems listed in the 'Economic development and knowledge economy in Saint Petersburg' state programme for 2015—2020. These are as follows:

- international rating agencies downgraded the city's credit outlook from stable to negative at the beginning of 2014;
- investment has reduced and investment attraction rates have been unstable.

In Saint Petersburg, the dynamics of fixed investment has always differed from the national average (fig. 1).

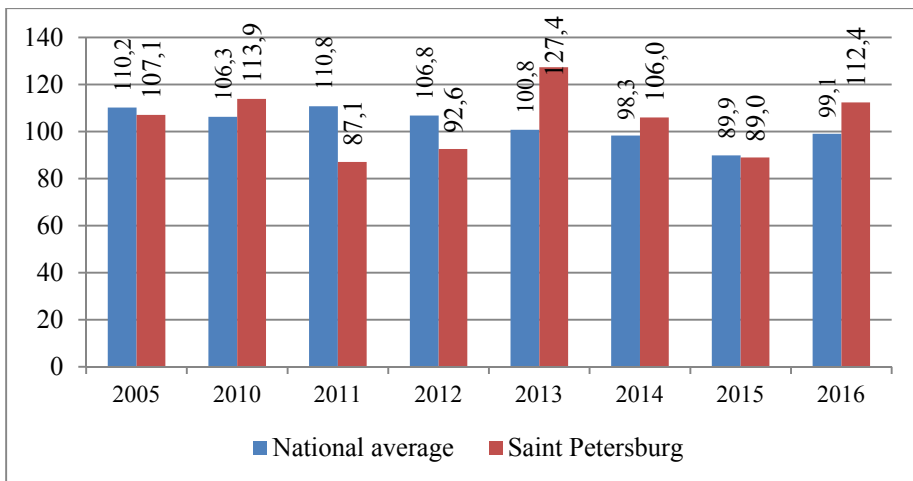


Fig. 1. Fixed investment, % of the previous year's level

Based on: Rosstat. URL: www.gks.ru

In 2016, the proportion of public fixed investment dwindled to 16%, as compared to 18—19.5% in the previous years. Whereas, at the national level, the proportion of federal fixed investment fell from 10% to 9%, Saint Petersburg witnessed a dramatic reduction to 5.8%.

To secure leadership in Russia and the Baltic region and to ensure innovative social and economic development until 2030, Saint Petersburg needs substantial investment resources. Only fixed investment should increase from 351.9 bn rouble in 2012 to 3000 bn rouble in 2030. A sine qua non is a more efficient use of investment resources [2].

An important source of finance and investment in the city's strategic development is highly liquid assets — securities and other financial instruments. This warrants an assessment of the investment characteristics of Saint Petersburg corporate sector and companies' ability to attract funds in order to implement their strategies in the corporate capital market and to create conditions for the successful development of promising industries.

The competitiveness, efficiency, and investment attractiveness of the corporate sector — chiefly, public companies — is impossible without a flexible reaction to changes in the economy. Such a reaction consists in asset and business area optimisation, management and control improvement, and information disclosure for shareholders and investors to make informed decisions.

Key to the mobilisation of investment leverages for development is the quality of corporate governance, which defines the system of relations between the executive bodies of the public company and its board of directors, shareholders, and other stakeholders. Within corporate governance, the theoretical structures of management theories localise in organisations through the activities and interactions of individuals. This creates microfoundations for dynamic capabilities [5, p. 4; 6, p. 42].

Constant efforts to enhance corporate governance are required not only to cater for the interests of shareholders and corporations. The World Economic Forum's annual *Global Competitiveness Report* considers the efficacy of corporate boards in calculating the overall competitiveness index [7, p. 46—48]. The recent Ease of Doing Business ranking places Russia 66th of 189. This year, the country has improved its position by 44 places. The regulation of the Government of the Russian Federation of June 25, 2016 No. 1315—3 approved of a 'Corporate governance Enhancement' roadmap. The protecting minority investors index of the Doing Business ranking was chosen as control indicator. Its value should increase from 5.67 in 2017 to 6.67—6.83 in 2018 [8].

Business community contributes to the development of corporate governance and relations. Supporters of the cause are the Centre for Corporate Relations Development and Economic Dispute Resolution non-profit partnership, the Joint Committee on Corporate Ethics of the Russian Union of Industrialists and Entrepreneurs, the National Corporate

Governance Council (NCGC), and other organisations established to develop, introduce, and monitor advanced professional standards in Russian companies. Since 2008, the NCGC has published National Corporate Governance report [9].

However, corporate governance suffers from one of the unsolved problems of Russia's economic policy. This is the persistent lack of coordination between the policy's tools and priorities at national, regional, industry, and corporate levels [10]. Authoritative methods for evaluating regional development — even those that estimate the capability to forecast, and react to socioeconomic crises [11; 12] — do not consider the corporate governance of local companies.

This study aims to evaluate the efficiency of Saint Petersburg public companies, in particular, the contribution of corporate governance to investment attractiveness, economic growth, and the implementation of the city's Strategy for Economic and Social Development until 2030 [2]. Another objective is to identify motives behind the decisions made by shareholders and potential investors and acceptable conditions of shareholding and debt security purchase.

Methods

When discussing conditions for economic growth, it is important to understand what behaviour of economic agents is indicative of their capability to attain long-term goals in a complex, challenging, and changing environment, to stay competitive in national and international markets, and to contribute to the development of regional economies.

The contribution of public companies to ensuring multi-channel financing and attracting private resources to strategic projects and activities is enormous. On the one hand, the shares of public companies are available to any investor in the stock market. On the other hand, companies must be flexible in their reactions to the requests of stock market regulators and both national and international investors to increase the transparency and quality of corporate governance.

In corporate governance, any ineffective or unconscientious action leads to reputational damages in the capital market and limits the opportunities of external investors. Better corporate governance has become key to the investment attractiveness of public companies and, thus, to investment climate and investment activities in a region.

An evaluation of corporate governance can use a different number of components, have a varying level of detail, and employ one or several methods. Below we will consider current practices.

At first glance, when evaluating investment attractiveness, a company's market value and dividends paid seem to be principal criteria for as-



sessing the management efficiency. However, the ‘imperfections’ of the market and the situation in it affect these parameters. In some cases, guided by a flawed financial model, a company’s management makes mistakes when identifying key competences necessary for implementing its strategy [13, p. 26—27].

The EcoDa (European Confederation of Directors’ Associations) and IFC (International Finance Corporation) link an increase in governance efficiency to the ‘comply or explain’ principle [14, p. 6]. In Russia, the document regulating corporate governance enhancement is the Corporate Governance Code of 2014 (referred to as the Code below) [15]. Today, all public companies have to incorporate information on compliance with the Code’s principles and recommendations into their annual reports (§ 70.3—70.4 of the bank of Russia Regulation of December 30, 2014, N 454-P On Information Disclosure by Issuers of Mass-Issued Securities. When analysing non-public companies, researchers usually estimate the quality of corporate governance based on the KPI system [16, p. 70].

We believe that corporate governance ratings are largely overlooked as an evaluation tool by shareholders, investors, companies, and regulating authorities. Internationally, many ratings — Governance, Management, Accountability Metrics and Analysis (GAMMA), Transparency and disclosure (T&D) Rating, The Audit Integrity Accounting and Governance Risk rating (AGR®), Board Effectiveness Rating, Institutional Shareholder Services Corporate Governance Quotien (ISS CGQ), and Overall GMI rating — monitor the compliance of public companies governance with requirements for protecting shareholder’s rights. Until 2011, the Standard&Poor’s credit-rating agencies evaluated corporate governance in Russian companies. The Russian Institute of Directors has calculated the National Corporate Governance Rating (NCGR®) since 2004 [17, p. 80—88]. Experts emphasise that ratings are effective evaluation tools. They are targeted, comprehensive, easily adjusted, representative, easy-to-interpret, independent, frequently updated, and relatively cheap to calculate [18, pp. 19, 89]. Business communities’ lack of interest in corporate governance as an evaluation tool deserves a close study.

This article evaluates corporate governance in 20 out of 85 Saint Petersburg public companies from a perspective of an investor. The study uses information from the companies’ official websites, the National Settlement Depository, the Moscow Exchange, Finam Holdings, and the SPARK system by Interfax.

We surveyed 70 managers from Russian non-public companies. The questions concerned experience in attracting investment, future plans, and investment requirements. The goal was to understand to what degree business is interested in investing in the assets (securities) of other organisations in order to receive income (dividends) from investment projects. Another objective was to assess the prospects of public companies attracting investment through issuing corporate obligations and shares.

Findings

The turnover of seventeen of the surveyed companies (with the exception of Bank Saint Petersburg, Vitabank, and Gazpromneft) accounts for 40.9% of Saint Petersburg's gross regional product.

The surveyed companies operate in the following industries:

- production of turbines (Power Machines);
- production of gas turbines (except turbojets and turboprops) (Proletarsky zavod);
- production of spacecraft and aircraft parts and equipment (Techpribor);
- production of engines (excluding aircraft, automobile, and motorcycle engines);
- production of communications equipment (Zvezda);
- production of communications (Zavod Volna);
- power generation (TGK-1);
- power transmission and connection to distribution lines (Lenergo);
- fixed telephony (Rostelecom);
- wholesaling of solid, liquid fuel, and related goods (Gazprom Neft);
- wholesaling of automobile parts and equipment (excluding representatives) (Rollman Group);
- securities management (Arsagera management company);
- monetary intermediation (Bank Saint Petersburg, Vitabank);
- residential and mixed use development (Metrostroy);
- testing and analysis of integrated mechanical and electric systems, energy inspection (Federal Testing Centre);
- production of cereal flour (Leningrad Kirov Baking Factory, Petersburg Flour Mill).

Svetlana, Inteltech, and Radiosvyaz public companies focus on R&D in natural sciences and technology. Techpribor, Zvezda, Power Machines, Proletarsky zavod, and Volna consider R&D as an auxiliary function.

Most of the companies studied are leaders in innovation in such fields as:

- civil and military aircraft (Tekhpribor);
- high-speed diesel engines within the power range of 400—1,700 kW (Zvezda);
- NPP turbines, including low-speed powered turbine units of a power of up to 1.5 GW, supercritical and ultra-supercritical steam turbines of a power of above 660 MW, sustainable and efficient water turbines, and related equipment (Power Machines);
- pumps for nuclear power plants (Proletarsky zavod).

The Techpribor public company and Zavod Volna R&D company are ready to expand the national import substitution programme through manufacturing electronic component that were earlier imported from NATO states (fuel measurement and alignment units, on-board engine control systems, fuel management systems, and data collecting and processing units).

Tables 1—4 show selected institutional characteristics of the public companies surveyed.

Table 1

The companies surveyd in registers

Register	Number of companies	% of the total*
Monopoly Register of the Federal antimonopoly Service	4	20.0
List of Strategic Enterprises	1	5.0
OAo list according to the Regulation of the Government of the Russian federation N 91-R ('golden share')	1	5.0
List of essential companies	2	10.0
Defence industry registry	5	25.0
Registry of accredited testing laboratories (centres)	2	10.0
Registry of certificates issued by the Assay Chamber of the Russian Federation	4	20.0
Authorities issuing testing laboratory certificates	4	20.0
Registry of personal data processors	4	20.0
Russian Union of Industrialists and Entrepreneurs	1	5.0
Registry of trustees	1	5.0
List of accountable companies (IFRS)	11	55.0
Banks meeting requirements for bank guarantees issue for taxation purposes	1	5.0
Registry of brokers	2	10.0
Registry of dealers	2	10.0
Registry of depositaries	2	10.0

* Proportion in the total number of companies surveyed.

Source: SPARK system. URL: <http://www.spark-interfax.ru/> (accessed April 5, 2017).

Many of the companies surveyed belong to the defence industry (25%) and every fifth is a market leader (table 1). As a manufacturer of diesel engines, Zvezda is included in the registry of exclusive suppliers of Russian arms and military machinery.

Most Saint Petersburg public companies are large manufacturers (61.1%) (table 2).

Table 2

Companies surveyed, by size

Category	Number of companies	% of the total*
Large enterprises	11	61.1
Medium enterprises	3	16.7
Small enterprises	3	16.7
Microenterprises	1	5.5

* excluding Bank Saint Petersburg, Vitabank.

Source: SPARK information system. URL: <http://www.spark-interfax.ru/> (accessed April 5, 2017).

A microenterprise, Arsagera was the first Russian management company to go public on the Moscow Exchange.

Small and microenterprises among public companies prompt a discussion about the superfluity of introduction of corporate governance best practices in certain cases [17, p. 44; 19, p. 64]. We believe that the ‘comply or explain’ principle is obligatory for everyone. The problem can be solved through outsourcing certain corporate procedures — internal auditing and the functions of a company secretary, non-executive director, and shareholder representatives working under a contract.

Most Saint-Petersburg public companies are privately owned (table 3).

Table 3

Companies surveyed, by ownership

Ownership	Number of companies	% of the total*
Privately owned	11	57.9
Joint private and foreign ownership	3	15.8
Mixed Russian ownership (federal)	3	15.8
Mixed Russian ownership (regional)	1	5.25
Other mixed Russian ownership	1	5.25

* excluding Gazprom Neft.

Source: SPARK system. URL: <http://www.spark-interfax.ru/> (accessed April 5, 2017).

Foreign legal entities are among the owners of TGK-1, Bank Saint Petersburg, and the Rollman Group.

In companies owned in part by the government, the Russian Federation — represented by the Rosimushchestvo — encourages the introduction and development of corporate government tools. However, the other companies often lack both competencies and incentives to work in that direction.

Saint Petersburg public companies are complex integrated structures. Most of the companies surveyed have considerable experience in managing groups of companies, subsidiaries, and affiliates (table 4).

Table 4

**Number of co-owners, subsidiaries and affiliates
of the companies surveyed**

Company name	Number of co-owners	Co-owners holding more than a 25% stake	Number of affiliates (company's data)	Number of branches (Rosstat)
Gazprom Neft	...	...	57	1
Rostelecom	17	1	47	70
TGK-1	4	2	4	27
Lenenergo	4	2	7	26
Power Machines	1	1	8	9
Metrostroy	8	1	15	4
Leningrad Kirov Baking Factory	1	1	2	2
Petersburg Flour Mill	2	2	5	0
Zavod Volna	4	1	1	1
Inteltech	4	2	1	2
Techpribor	6	1	4	1
Proletarsky zavod	2	2	1	3
Zvezda	7	2	4	1
Svetlana	5	1	14	3
Radiosvyaz	1	1	—	—
Rollman Group	5	-	8	—
Arsagera	11	1	3	—
Federal Testing Centre	2	1	—	—
Bank Saint Petersburg	35	1	5	7
Vitabank	...	...	...	...

Source: SPARK system. URL: <http://www.spark-interfax.ru/> (accessed April 5, 2017).

Key to a better quality of corporate governance in these companies are an accurate identification and delineation of responsibilities between parent and affiliate management, efficient participation in the work of the affiliates and subsidiaries' boards of directors, a clear procedure for the approval of major and interested party transactions. Almost all the companies are characterised by concentrated corporate control, i. e. one of their co-owners holds a blocking minority stake (over 25%). The activities of the companies surveyed suggest that their managers have key competencies in the following fields:

- the preparation and implementation of a development strategy (Rostelecom, Gazprom Neft, Bank Saint Petersburg);

- the preparation and implementation of long-term development, import substitution, innovative development, and energy efficiency programmes in the affiliates of state corporations (Rostech) and companies with more than 50% of state ownership, in accordance with the Government regulations and recommendations from the Ministry of Economic Development;

- the implementation of the 'Development of the Defence Industry', 'National technology', 'Development of Civil Marine Engineering in 2009—2016' federal target programmes, and the state armament plan for 2011—2020;

- export contracts in the framework of defence cooperation;

- intellectual right management;

- introduction of quality management systems;

- Russian and international product certification;

- defence procurement;

- dual-use technology;

- SPV (special purpose vehicle) projects;

- engineering collaboration with research and academic institutions, including that in the framework of the Union State.

Most of the companies have announced ambitious plans that require investment. Rostelecom intends to break into the market of content and digital services (data centres, cloud services, OTT video, Industrial Internet of Things, Geodata). Gazprom Neft plans to continue the modernisation of refineries and Svetlana to modernise the power supply facilities, utility networks, and communications. Power Machines has concluded a contract with Gazprom and Linde to produce LNG equipment. The company is considering the opportunity to enter the renewable energy market. Proletarsky Zavod intends to extend production to oil, gas and NPP equipment. Gazprom Neft aims to achieve maximum value added on the capital invested in Russia's gas industry.

Tables 5 and 6 show how Saint Petersburg public companies attract investment through issuing shares.

Table 5

The issue of shares by the companies surveyed in 2014—2016

Company name	Registration date (dd. mm. yyyy)	Stock type	Offering type	Status
Rollman group	28.01.2016	PBE	Public offering	Completed
Techpribor	19.01.2015	CBE	Non-public offering	Withdrawn
Lenenergo	03.12.2015	CBE	Public offering	Completed
Inteltech	25.12.2014	CBE	Non-public offering	Withdrawn
	04.05.2016	CBE	Non-public offering	Continues
Zavod Volna	17.06.2015	CBE	Conversion	Withdrawn
	22.10.2015	CBE	Public offering	Failed
Federal Testing Centre	27.01.2015	CBE	Stock issued to founders only	Completed
Petersburg Flour Mill	28.11.2016	CBE	Non-public offering	Continues

* PBE stands for preferred book entry stock and CBE for common book-entry stock.

Source: SPARK information system. URL: <http://www.spark-interfax.ru/> (accessed on April 5, 2017).

Table 5 shows that Saint Petersburg public companies do not see issuing stock as a major tool to attract finance. Moreover, in some cases, such attempts were not successful, which is indicative of the poor quality of preliminary analysis. The issue of stock does not yield the desired result, when strategic investors — who are interested in the consolidation of control and leadership in a certain market — are more prone to act than portfolio investors are [20, p. 11].

The dividend policy of the companies surveyed also proved to be inefficient. For detail on dividend payments in 2014—2015, see table 6.

Table 6

Accrued dividends, 2014—2016, thousand roubles

Company name	Common stock		Preferred stock	
	2014	2015	2014	2015
Gazprom Neft	30 676 209	30 676 209	—	—
Rostelecom	8 603 004	15 231 824	848 746	1 239 676
TGK-1	868 780	936 621	0	0
Lenenergo	0	0	0	0

End of table 6

Company name	Common stock		Preferred stock	
	2014	2015	2014	2015
Power Machines	7 879 360	0		
Metrostroy	12 394	13 943	4 943	5 607
Leningrad Kirov Baking Factory	303 188	324 337	0	0
Petersburg Flour Mill	0	0	23 000	18 600
Zavod Volna	0	0	0	0
Inteltech	...	...	...	...
Techpribor	33 035	25 856	22 023	17 238
Proletarsky zavod	0	0	0	0
Zvezda	5 620	0	—	—
Svetlana	1 673	1 673	558	558
Radiosvyaz	...	...	...	...
Rollman group	0	0	7 091	14186
Arasgera management company	0	0	0	0
Federal testing Centre	0	0	0	0
Bank Saint Petersburg	887 899	459 313	2 155	2 211
Vitabank	0	0	30	30

Source: SPARK system. URL: <http://www.spark-interfax.ru/> (accessed on April 5, 2017).

The classical approach suggests that rational long-term investors prefer shares to bonds and treasury bills, since the former are more lucrative [21—23].

However, investors are increasingly embracing a risk culture [24, p. 29]. According to experts from the Russian Presidential Academy of National Economy and Public Administration, an analysis of risks and profits associated with different types of assets yields a different result — long-term investors prefer corporate bonds [25, p. 64—67].

Long-term investors are interested in safeguarding the assets and using them effectively. Another goal is to reduce risks, which investors cannot estimate and do not want to take. The need for investors to manage risks in a long-term perspective reduces a company's investment attractiveness and the cost of its shares [9]. International studies prove this finding [26—28].

Unfortunately, only three of the surveyed companies have attempted to issue bonds (table 7).

Table 7

Bonds of the companies surveyed, 2014—2016

Company name	Issuance date	Announced amount	Issue size	Status
Rostelecom	September 2016	15 000 000	15 000 000	Issued
Power Machines	July 2014	30 000 000	30 000 000	Issued
Gazprom Neft	March 2016	25 000 000	25 000 000	Issued
	June 2016	10 000 000	10 000 000	Issued
	August 2016	15 000 000	15 000 000	Issued

Source: SPARK system. URL: <http://www.spark-interfax.ru/> (accessed April 5, 2017).

Such passive behaviour of public companies is puzzling, as business is keenly interested in investment in performing assets.

A survey of managers from 70 Russian non-public companies shows that 35.7% of the respondents do not have experience in investment and 20% have a limited experience. The other companies have invested only in subsidiaries and affiliates.

Fifty companies procure funds from other organisations within the same holding. Only 21.4% of the companies surveyed have experience in issuing corporate bonds. All the companies use bank loans.

When answering the question ‘what is your company’s major motivation to invest?’ the respondents mentioned the following:

- financing investment projects associated with growth and high performance (82.9%);
- investing idle funds in liquid vehicles (35.7%);
- generating additional income (14.3%).

It is easy to predict how potential investors would react to a company’s statements not mentioning the rate of return on investment projects, holding the results of ROI analysis secret, and offering only general information on dividends and other financial performance indicators.

The respondents link their readiness to invest in the equity securities of other companies to the opportunity to gain certain rights. Among major benefits, the respondents mentioned:

- participation in the approval of large transactions;
- opportunity to obtain from the registrar information on shareholders and the number of shares they hold.

Other important rights include:

- to access the list of persons entitled to attend general meetings;
- to access minutes of board meetings;

— to freeze the shares of major shareholders and to call a repeat meeting.

The respondents identified the following rights as the least important:

- to call an extraordinary shareholder meeting;
- to influence the procedure of general meetings;
- to introduce changes into, and approve a revised version of, the articles of association.

In the latter case, the respondents' opinions seem ungrounded. The articles of association often overlook essential aspects of corporate governance — board's powers in regard to the establishment and dissolution of executive bodies and the adoption and control over the implementation of strategies and business plans. Changes to the articles of association will bridge such gaps.

Anyway, 'all non-property rights of participants in corporate relations should support the property rights of corporate members, since non-property rights contribute to the achievement of goals, in pursuit of which individuals join a corporation' [29, p. 15].

There are bleak chapters in the national history of corporate relations. In the 1990s, irregularities in the preparation and conduct of general meetings, the erosion of shareholders' interest through follow-on offerings, and wrongful acts during major and interested party transactions were common. I Yu Belyaeva and M A Eskindarov describe such irregularities in the dealings of Gazprom, Lebedinsky GOK, NLMK, Surgutneftegaz, Altayenergo, Nosta, and other companies [30, p. 46—48]. It has been stressed that: 'when individuals their different interests act in the interests that differ from those of other participants in corporate relations, a collision of interests takes place, which can lead to a corporate conflict' [31, p. 7]. The respondents believe that, given the current condition of the corporate control market and the level of corporate governance, conflicts may result from:

- reorganisation of a company (77.1 % of the respondents estimated the risk as 'very high');
- strategic goals and the ways to attain them (65.7 % named them a frequent cause of conflicts);
- choice of investment instruments, relations with affiliate legal entities (a 'common cause' of conflicts according to 66.5 % of the respondents).

All the respondents stressed the need to improve some corporate governance components. When answering the question as to what components require improvement, the respondents mentioned the following:

- risk management, internal control, internal auditing (32 %);
- organisation of the work of the board (28 %);
- corporate social responsibility (28 %);

- exercise of shareholders' rights (10%);
- executive management (8%);
- transparency and information disclosure (6%).

Public companies' apathy and ineffectiveness in governance inevitably reduce the investment attractiveness of the Saint Petersburg corporate sector. As a result, the number of private sources of finance and investment in the projects and initiatives within the city's strategy for economic and social development will dwindle.

Prospects

Investors anticipate that better governance will become a common response of the corporate sector to the changing conditions of free cross-industry and cross-territory flow of capital. One of the national priorities identified in the 'Fundamentals of the Activity of the Government of the Russian Federation until 2018' is 'corporate governance best practices'. Industry-specific strategic planning documents, national and regional programmes, and the plans and programmes of individual companies should embrace this priority.

Attaining better corporate governance by Saint Petersburg public companies is crucial to securing economic growth and socially oriented innovative development.

Saint Petersburg enjoys the status of a federal region. The city's authorities, acting within their powers, should collaborate with the business community:

- to create a shared knowledge centre so that companies will be able outsource the functions of a company secretary, internal auditor, non-executive director, and shareholder representatives;
- to establish ratings as a principal tool for monitoring the quality of corporate governance including the cases of public procurement;
- to create a competitive market in the field of business information and due diligence to provide investors with access to reliable and rapid data on local investment opportunities, with confidence and national security requirements taken into account;
- to collaborate with mass media to ensure the transparency of re-organisations, mergers and acquisitions, reorganisations followed by the creation of non-profits and municipal companies, and bankruptcy, and to avoid corporate insolvency;
- to encourage the Saint Petersburg Union of Industrialists and Entrepreneurs to develop an institute of corporate governance and relations and to create a system of professional communities.

Having undertaken a mission to create new values and to pursue best practices, Saint Petersburg could create a national, or even Eurasian, re-

search and educational platform for the professional discussion of theoretical problems and practical applications in the field of corporate governance. This platform could become a talent pool of corporate governance professionals.

References

1. Kuznetsov, S. V., Lachininskii, S. S., 2014, Modern understanding of 'geoeconomic position' and the Saint Petersburg agglomeration, *Balt. Reg.*, Vo. 6, no. 1, p. 79—92. doi: 10.5922/2079-8555-2014-1-7.
2. Strategy of economic and social development of St. Petersburg for the period until 2030: Decree of the Government of St. Petersburg of May 13, 2014 No. 355, available at: http://gov.spb.ru/gov/otrasl/c_econom/strategiya-socialno-ekonomicheskogo-razvitiya-sankt-peterburga-do-2030/ (accessed 05.04.2017) (in Russ.)
3. Kuznetsova, O. A. 2013, Piramida of factors of social and economic development of regions, *Voprosy ekonomiki* [Questions of economy], no. 2, p. 121—131 (in Russ.)
4. RAEX (Expert RA). Investment attractiveness of regions — 2016: areas of high risk, available at: http://raexpert.ru/docbank//3a5/7de/1be/dc6c62e7da29a4faa_8c961b.pdf (accessed 05.04.2017) (in Russ.)
5. Tambovtsev, V. L. 2010, [Basic concepts of strategic management: the problem of micro-bases, *Rossiiskij zhurnal menedzhmenta* [Russian Management Journal], Vol. 8, no. 4, p. 3—30 (in Russ.)
6. Trachuk, A. V. 2014, The Concept of Dynamic Capabilities: in Search of Microfoundations, *Jekonomicheskaja nauka sovremennoj Rossii* [Economic science of modern Russia], no. 4 (67), p. 39—48 (in Russ.)
7. Schwab, K. 2017, *The Global Competitiveness Report 2016—2016*, Geneva, World Economic Forum, available at: http://www.nmi.is/media/338436/the_global_competitiveness_report_2016—2017.pdf (accessed 05.04.2017).
8. Action plan (road map) «Improving corporate governance»: Order of the Government of the Russian Federation No. 1315-r of June 25, 2016, available at: <http://docs.cntd.ru/document/420364000> (accessed 15.03.2017) (in Russ.)
9. Nacional'nyj sovet po korporativnomu upravleniju, 2015, *Nacional'nyj doklad po korporativnomu upravleniju* [National report on corporate governance], no. 8, Moscow, available at: <http://www.nccg.ru/site.xp/049048048124054057048049054.html> (accessed 01.02.2017) (in Russ.)
10. Miller, A. E., Kuznetsov, S. V., Rastova, Yu. I. 2017, Instruments to assess efficiency of implementation of the strategy of scientific and technological development of the Russian Federation, *Espacios*, 38 (33), no. 16, p. 16.

11. Kuklin, A. A., Bystray, G. P., Okhotnikov, S. A., Vasilyeva, E. V. 2015, Economic tomography: an opportunity to expect and react to the socio-economic crises, *Ekonomika regiona* [Economy of region], no. 4, p. 40—53 (in Russ.)

12. Kuklin, A. A., Okhotnikov, S. A. Korshunov, L. A. 2016, Architectonics of the information and analytical system «Anticrisis», *Ekonomika regiona* [Economy of region], Vol. 12, no. 2, p. 371—382 (in Russ.)

13. Teplova, T. V. 2007, *Investicionnyye ryuchagi maksimizacii stoimosti kompanii. Praktika rossijskih predpriyatij* [Investment levers to maximize the value of the company. Practice of Russian enterprises], Moscow (in Russ.)

14. A Guide to Corporate Governance Practices in the European Union, *European Confederation of Associations of Directors; International Finance Corporation*, available at: http://ecoda.org/uploads/media/A_Guide_to_Corporate_Governance_Practices_of_the_European_Union_-_IFC_ecoDa_02.pdf (accessed 01.02.2017).

15. Code of Corporate Governance, 2014, *Vestnik Banka Rossii*, Normative acts and operational information of the Central Bank of the Russian Federation, no. 40 (1518), p. 3—63 (in Russ.)

16. Bataeva, B. S., Kozhevina, O. V. 2015, The development of tools to assess the effectiveness and quality of corporate governance of non-public companies, *Vestnik Finansovogo universiteta* [Bulletin of the Financial University], no. 6, p. 62—72 (in Russ.)

17. Verbitsky, V. K. 2015, *Iz ideal'nogo real'nomu. Chto dejstvitel'no nuzhno kompanijam dlja svoej praktiki iz Corporate Governance Best Practices* [From the ideal to the real. What companies really need for their practice from the experience of the Corporate Governance Best Practices], Moscow (in Russ.)

18. Karminsky, A. M. 2015, *Kreditnyye rejtingi i ih modelirovanie* [Credit ratings and their modeling], Moscow (in Russ.)

19. Tkachenko, I. N. 2016, Specificity of assessing the quality of corporate governance in medium-sized companies with state participation, *Jeffektivnoe antikrizisnoe upravlenie* [Effective Crisis Management], no. 2, p. 58—64 (in Russ.)

20. Kovalenko, B. B. 2013, Institutes of public and private ownership of property in the conditions of self-organization of corporate entrepreneurship. Features of the Russian food industry, *Nauchnyj zhurnal NIU ITMO. Serija: Jekonomika i jekologicheskij menedzhment* [Scientific journal of NIU ITMO. Series: Economics and Environmental Management], no. 2 (13), 13 p., available at: <http://www.economics.ihbt.ifmo.ru> (accessed 05.04.2017) (in Russ.)

21. Sigel, D. 2010, *Dolgosrochnye investicii v akcii. Strategii s vysokim dohodom i nadezhnost'ju* [Stocks for the Long Run: The Definitive Guide to Financial Market Returns and Long-Term Investment Strategies], SPb. (in Russ.)

22. Ibbotson, R., Chen, P. 2011, Will Bonds Outperform Stocks over the Long Run? Not Likely. In: Hammond, B. Jr., Martin, M., Siegel, L. (eds.) *Rethinking the Equity Risk Premium*, The Research Foundation of CFA Institute, p. 117—129, available at: <https://corporate.morningstar.com/ib/documents/MediaMentions/AreBondsGoingToOutPerformStocks.pdf> (accessed 05.04.2017).
23. DeLong, J. B., Magin, K. 2009, The U. S. Equity Return Premium: Past, Present, and Future, *Journal of Economic Perspectives*, no. 23, p. 193—208.
24. Bernstein, P. L. 1996, *Against the Gods: The Remarkable Story of Risk*, New York.
25. Abramov, A. E., Radygin, A. D., Chernova, M. I. 2015, Long-term Portfolio investment: New insight into Return and Risk, *Voprosy Ekonomiki*, no. 10, p. 54—77 (in Russ.)
26. Barontini, R., Bozzi, S., Ferrarini, G., Ungureanu, M. 2013, Directors' remuneration before and after the crisis: Measuring the impact of reforms in Europe. In: Belcredi, M., Ferra, G. (eds.) *Boards and Shareholders in European Listed Companies: Facts, Context and Post-Crisis Reforms*.
27. Boeva, B., Pavlova, V. 2012, *Corporate Governance-State-of-the-art and Future Trends in the Integration of Bulgarian Companies within the European Market*, Sofia, Bulgaria.
28. Belcredi, M., Ferrarini, G. 2013, *Boards and Shareholders in European Listed Companies: Facts, Context and Post-Crisis Reforms*, Cambridge, United Kingdom.
29. Makarova, O. A., Abramjan, T. A. 2015, On the right of corporations in the light of the Civil Code of the Russian Federation, *Grazhdanskoe pravo* [Civil law], no. 1, pp. 14—19 (in Russ.)
30. Beljaeva, I. Ju., Jeskindarov, M. A., 2000, Korporativnye formy hozjajstvovaniya v rossijskoj jekonomike i problemy vzaimodejstvija menedzhmenta i melkih akcionerov [Corporate forms of management in the Russian economy and problems of interaction between management and small shareholders], *Finansy i kredit*, no. 10 (70), p. 44—48 (in Russ.)
31. Makarova, O. A. 2015, The concept and signs of corporate governance as a way of coordinating economic activity, *Grazhdanskoe pravo* [Civil law], no. 4, p. 6—8 (in Russ.)

The authors

Prof Sergey V. Kuznetsov, Institute of Regional Economic Problems,
Russian Academy of Sciences, Russia.

E-mail: s.kuznetsov09@yandex.ru



Prof Yuliya I. Rastova, Department of Management and Innovation,
Saint Petersburg State University of Economics, Russia.

E-mail: rastova.yu@unecon.ru

Dr Natalia V. Sushcheva, Department of Economics and Quality
Management, Saint Petersburg State University of Economics, Russia.

E-mail: snv@finec.ru

To cite this article:

Kuznetsov S. V., Rastova Yu. I., Sushcheva N. V. 2018, The Role of Public Companies in Creating a Platform for Economic Growth in Saint Petersburg, *Balt. Reg.*, Vol. 10, no. 1, p. 37—55. doi: 10.5922/2079-8555-2018-1-3.