

# CORPORATIONS AS PARTICIPANTS IN ECONOMIC RELATIONS

Oxana Cherkasova

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## Abstract

This article is devoted to the consideration of a corporation as a subject of economic relations. The studying of this issue is impossible without understanding what a corporation is, what its main features are. In the course of global changes related to the transition of the Russian state to the market economy, the situation with the understanding of the corporation has changed, in connection with which this topic is important and relevant. A large number of publications are devoted to the study of corporations. These include the works of L. Mises, P. Drucker, M. Porter, F. Kotler, etc. By resorting to the logical methods of analysis and synthesis of information, as well as the method of comparative jurisprudence in this article, the author will try to develop common approaches in the understanding of the corporation, its varieties and place in a market economy. In addition, the author will highlight the main theoretical and practical problems associated with the consolidation in the legislation of the separation of legal entities into corporate and unitary organizations, as well as analyze changes relating to the rights and obligations of the participants of the corporation and the procedure for managing it.

**Key words:** corporation, economic activity, civil law.

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## Introduction

The 90s of the 20th century is the initial period of reforming the Russian economy accompanied by the mass privatization of former state enterprises. L. Mises explains the transformation process as follows: “the idea of change implies the idea of a time sequence. The concepts of change and time are inseparably linked with each other. He who acts distinguishes between the time before the action, the time absorbed by the action and the time after the action has been finished. He cannot be neutral with regard to the lapse of time. (Mises, 2002)

From the viewpoint of production efficiency, great hopes were placed on the transition to joint-stock ownership and trade liberalization, which should have contributed to the

formation of an efficient market economy. These prospects stemmed from the economic nature of the corporation. In the era of economic transformations, the need arose for a theoretical understanding of corporate behavior. The subject of the research is the study of relations about the participation of corporations in a market economy. The purpose of the study is to determine the economic and legal nature of corporations as a participant in a market economy, identifying a number of problematic aspects in this area. To achieve this goal, the author posed the following tasks: analysis of various theories interpreting the essence of the company, predetermining the concept of a corporation, as well as current ideas about the corporation as an institution of a market economy; analysis of the position of the corporation in the Russian economy, as well as the study of areas of increased attention from both economists and lawyers.

## **1 Methodology**

In this paper, we used a system of methods characteristic of both economic and legal science. Through the methods of analysis and synthesis of information in this study, the corporation as a subject of economic relations is presented in different perspectives. Thanks to the eclectic method of cognition, the author studied the process of development and the formation of a corporation as a individual from the point of view of various theories and concepts. The legal method of system-structural analysis allowed to identify problems and suggest possible ways to resolve existing contradictions of external and internal corporate relations.

## **2 Theoretical aspects in understanding the essence of the "firm" as a participant in economic relations**

The Russian state which for a long time remained in the dominance of the administrative-command economy could provide a minimum normal standard of living, but on the whole it did not allow to realize individual's creative potential and many reasonable needs could not be satisfied because of the constant shortage of consumer goods and services and funding for the development of the social sphere. At the same time, the indicator of the living standards during the transition period is the level of social justice, which depends on the social and economic policy of the state. (Cherkasova, 2018)

Corporations are a complex socio-economic phenomenon, rooted in the distant past. For the first time, municipalities and urban communities of the Roman Republic received the right to private property. The notion of a legal entity having property and property rights,

separate from the founders, participants, the government and any other person arose in Roman law. In terms of Roman law an individual is a person who can be seen and felt, and a legal entity is an imaginary person created by organizational means and possessing property rights.

The starting point in the development of modern forms of organization of production can be considered the emergence of the first enterprises, personally managed by the owners, at which they were also their employees. Such an autonomous vision of an enterprise existed in neoclassical economic theory, replacing the doctrines of classical economic theory at the end of the 19th century.

In this connection, we can distinguish three main theoretical approaches to explaining the nature of the company: neoclassical, institutional and managerial (Popov, 2002). Consider each of the mentioned approaches. The theory of the company appeared in 1937 thanks to the famous article by R. Coase (Coase, 2001). In the classical, and then in the non-classical theory, the firm is identified with the concept of an enterprise as a production unit, as a system for transforming initial resources. The goal of neoclassical economic theory is to find out how the price system works, which coordinates the activities of economic agents who make decisions independently of each other. The advantages of the neoclassical concept are that it lends itself to mathematical formalization, it is useful for analyzing how a firm changes its production in response to changes in external factors, such as wage growth or the imposition of sales tax. However, the neoclassical theory is not able to clearly define the boundaries of the firm. It does not explain what happens when two firms merge into one or when one firm splits into two smaller firms. In actual fact a firm is an abstraction in which all the differences between real firms are erased. The behavior of the firm (profit maximization) does not depend on its institutional form (for example, on the structure of property rights prevailing in the firm).

Further development translated into expression in the institutional theory of the firm, which is associated with the concept of "transaction costs". The development of this trend in the institutional theory of the company is associated with the names of R. Coase and F. Knight. Transaction costs arise from the need to search for and evaluate information about a potential partner, to negotiate and conclude contracts and also to protect these contracts. The growth of the company is also due to an attempt to save on these costs, which in the case of absorption of the supplier turn into internal costs. As long as such costs are low, the firm will grow. The disadvantage of this approach is that it is difficult to estimate transaction costs and therefore minimize them. In practice, companies generally do not keep records of such costs and control them rather intuitively or through the introduction of strict standards of customer

service. Competitive analysis of the industry according to Michael Porter helps to determine the intensity and completeness of competitive forces in the industry, to find a position in which the company will be maximally protected from the influence of competitive forces and will be able to influence them, which will also minimize transaction costs. In general, the institutional approach also does not fully reflect the economic reality. (Porter, 2008)

Within the framework of the management approach, the special interest is the theory of the corporation of J. Galbraith, according to which large corporations are considered as the main participant of institutional economics in the new industrial society. Shareholders receive increased dividends, and workers receive higher wages. The scientist called a corporation a technostructure, it has the scarcest production factor - knowledge. According to J. Galbraith the corporation's functioning takes place in three markets: a commodity market divided into a raw materials and equipment market and a market for its products; capital market and labor market. A developed corporation must protect itself from risk and uncertainty in all these markets. In general, J. Galbraith was very optimistic about the transition from capitalism to a new, industrial society in the late 1960s. (Galbraith, 1969)

The transfer of market relations into the internal sphere of companies ("domestic markets") brought into the world a new type of structure - network organizations. Networks are a complex of firms or specialized units, the activities of which are coordinated by market mechanisms instead of command methods. However, the effectiveness of network organizations is often reduced due to managerial errors in the development of organizational structures and in the process of managing them. Currently, network theory is in the active growth phase. Firms operate in the context of business relations and networks that affect the nature and outcomes of their actions and which are potential sources of competitive advantage. Relations and networks represent a challenge for management because firms are unable control or direct these relations or networks or predict the outcomes of their actions. Firms are continually adapting their actions and associated "network theories" in the light of their experience and network structure and behavior emerge through the local interaction of network members in a bottom up self-organizing way. (Wilkinson, 2002)

G. Kleiner offered the system integration theory of the enterprise. In his opinion, an enterprise can be considered on the basis of two spaces - economic and legal. (Kleiner, 2005)

One of the modern positions of representatives of modern European economic thought in the understanding of the corporation is as follows: «There are numerous accounts of the financial crisis that shocked the Western world in 2008. Almost all the commentaries are steeped in the same cognitive paradigm of linear thinking and assumptions of economic self-

interest that could be seen to have created the crisis. While acknowledging the multiplicity of reasons for the crisis and how it should be managed, this article offers an alternative in presenting a gendered perspective that could complement but also challenge some of the conventional wisdom. It suggests a link between managing masculinity and mismanaging the corporation leading to government bailouts for the banks and a near collapse of Western economies. (Knights & Tullberg, 2012)

The legal doctrine has also changed significantly in connection with the introduction of amendments to civil legislation, in which the signs of corporate relations were formulated, either related to participation in corporations or their management. V. Belov formulates the definition of corporate relations in the widest possible sense, meaning by corporate public relations aimed at organizing and carrying out activities for the joint achievement of a common goal - union or corporate activity. (Belov, 2015)

### **3 Corporations as a participant in market relations in Russia at the present stage: problems and prospects**

In Russia the first corporations emerged as joint-stock companies and were borrowed from Western legal culture. Legally the term corporation originated in connection with the reform of the Russian civil legislation of 2013-2014 in the 21st century.

According to the Forbes rating for 2018, the three largest corporations in Russia are: PAO LUKoil with revenues of 5.475 trillion rubles. X5 Retail Group occupies the second place in the rating with an index of 1.295 trillion rubles.

X5 Retail Group is one of the leading Russian multi-format grocery retailers. One of the largest Russian oil and gas companies – «Surgutneftegaz», closes the top three with an index of 1.175 trillion. rub.

Next we will consider some of the problematic aspects associated with the participation of the corporation in the Russian economic reality.

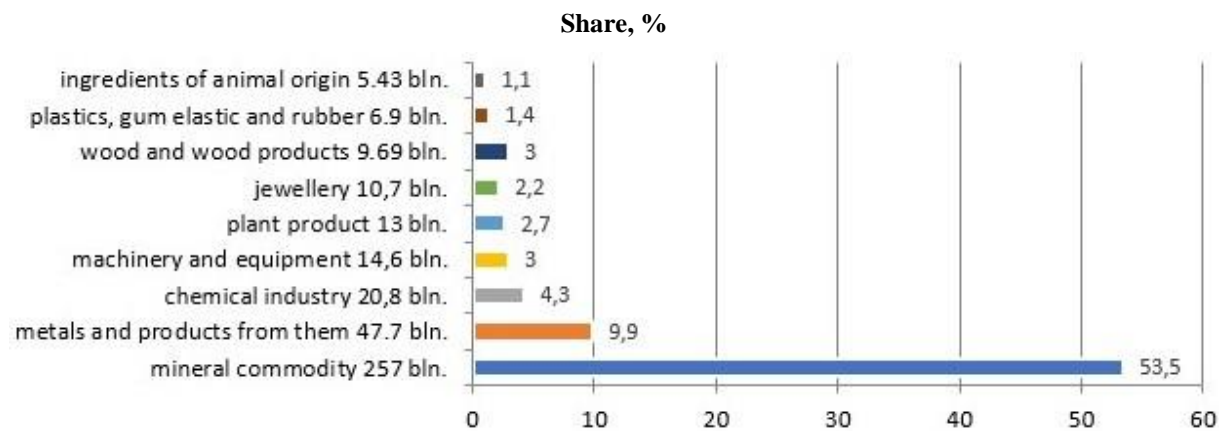
#### **3.1. Corporations as a way of organizing the industrial sector**

In accordance with the strategy of social and economic development until 2020, adopted in 2008, Russia sets serious goals to achieve a level of economic and social development corresponding to the status of the country as the leading world power of the 21st century, leading the way in global economic competition and reliably ensuring national security and

the implementation of the constitutional rights of citizens. At present, the commodity economy remains, which is the main problem inhibiting Russia.

Thus, the share of exports in February 2019 amounted to mineral products 257 billion - 53.5%; Metals and products made from them 47.7 billion - 9.9%; chemical industry products 20.8 billion - 4.3%; machinery and equipment 14.6 billion- 3%; vegetable products 13 billion - 2.7%; jewels 10.7 billion - 2.2%; wood substance and products 9.69 billion - 3%; plastics and rubber 6.9 billion - 1.4%; animal products 5.43 billion - 1.1%, it is showed in figure 1.

**Fig. 1: Share of Russian exports**



Source: Federal State Statistics Service

According to Babkin A., one of the possible ways to overcome this problem is the transition of the Russian economy to an innovation-oriented development model where much attention is paid to high-tech industries such as aviation, rocket-space industry, shipbuilding, radio electronics, etc. ( Babkin, 2014)

There is a point of view according to which we present a model that explains how established firms create breakthrough inventions. We identify three organizational pathologies that inhibit breakthrough inventions: the familiarity trap – favoring the familiar; the maturity trap – favoring the mature; and the propinquity trap – favoring search for solutions near to existing solutions. We argue that by experimenting with novel (i.e., technologies in which the firm lacks prior experience), emerging (technologies that are recent or newly developed in the industry), and pioneering (technologies that do not build on any existing technologies) technologies firms can overcome these traps and create breakthrough inventions. Empirical evidence from the chemicals industry supports our model. (Ahuja & Lampert, 2001)

For example we can consider also the structural changes within the French innovation system which have influenced the role of defense firms since the late 1980s. Major changes have affected, in particular, the defense budget and the state system for financing research and development. At the same time French defense firms remain large corporate elements and face these major changes, adapting the financing of their R & D and their research priorities and unleashing new innovative opportunities. In addition, French researchers note, that they developed new innovative models to take advantage of new partnerships developed for civil and military markets. (Ayerbe, Lazaric, Callois, Mitkova, 2014)

In modern conditions, the creation and production of industrial products increasingly goes beyond a single enterprise. For several decades, the search for effective integration interactions of enterprises has been conducted. Its result is the formation of new organizational forms that ensure joint activities of enterprises and organizations that implement the production process. From the scientific point of view, integration as a result is a state of integrity, orderly functioning of parts of the whole, a property of the socio-economic system that permeates all aspects of economic relations at all stages of the reproductive cycle and all levels of the hierarchy, therefore, integration is a system of relations and connections between the whole and its parts. (Hobday, Davies , Prencipe, 2005)

Thus, the economy of developed countries is based on the activities of large corporations. According to experts, the national economy can be competitive if it is structurally composed of large corporate elements. In this connection, the following types of them are distinguished: a corporation is a complex economic structure or legal entity that is a union of persons and capital for business purposes; meta corporation is a modern corporate education, the union of several economic agents; integrated economic system is a complex, highly organized association of economic entities engaged in coordinated economic activities on the basis of consolidating their strategic resources on a contractual basis; integrated corporation is a set of legal and economically independent firms; intercompany networks is a set of business entities operating in accordance with the existing business opportunities.

From above mentioned it can be concluded about the variety of terms used to characterize corporate elements, among which there are integrated industrial groups or holding structures, joint-stock companies, and other corporations which include industrial enterprises, transnational companies, financial and industrial groups.

### **3.2. Participation of the corporation in the socio-economic sector of the regions of Russia**

Regions of Russia are striving to attract a powerful corporation including a foreign corporation with a good reputation and fulfilling social obligations, to the territory as an investor. At the same time, the region receives large investments, tax deductions, high-performance jobs, modern technologies. Attracting a large corporation indicates a favorable business and investment climate in the region. The decisive factor for a corporation when choosing a region to locate production is the availability of a raw material base, convenient logistics and the potential to provide markets. (Berkovich, 2016)

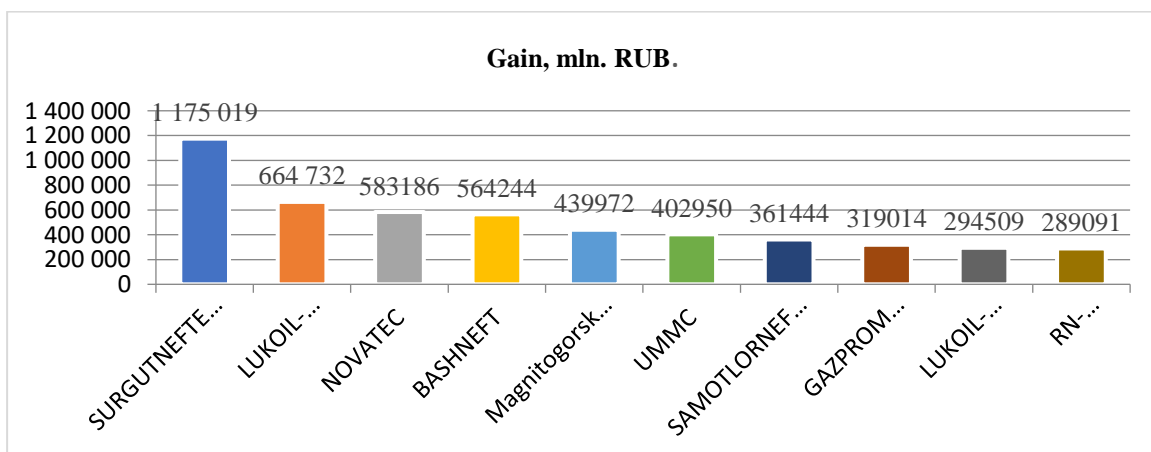
The Russian regions are differentiated by the main socio-economic indicators which indicates not only social heterogeneity. The territory of Russia includes several climatic zones, natural climatic zones, moreover, the regions possess natural resources to varying degrees, some regions have an advantageous geopolitical position and access to world transport routes. (Grigoriev, 2012)

The state support measures at the regional level is equally important. Based on an analysis of the regulatory framework in 19 constituent entities of the Russian Federation, six areas of support for large corporations in the regions were identified: tax incentives, subsidies for various costs, and co-financing of the project; bank loan guarantees; budget allocations of the regional and investment fund; organizational support in the selection of land.

As an example, for the whole Ural region its own branch structure is typical: these are the enterprises of mechanical engineering and metalworking (41% of the sample), the production of building materials (20%), ferrous and non-ferrous metallurgy (9%), and also consumer goods, food, chemical, forest industries, etc.

According to the analytical center Expert Ural, the largest corporate elements of the market are resource-producing enterprises, it is showed in figure 2.

**Fig. 2 : Corporation of the Ural region**





Source: Research division of the media holding "EXPERT"

Corporations of various industries play an important role in the development of regional innovation infrastructure facilities. However, the benefits of placing a corporation in a large region are sometimes accompanied by a number of negative consequences that can be optimized with the help of state regulation.

## Conclusion

Summing up the above, I would like to note that the complication of the corporate systems of the corporation is connected, first of all, with the need to actively form their properties of economic sustainability due to internal growth factors. A corporation that incorporates economic entities of various sectoral grounds and geographic location, being the basis of the economy today, largely predetermines the dynamics of its growth and also creates conditions for ensuring the social and economic stability of development processes both at the country level as a whole and in the regional market sector.

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## Contact

Oxana Cherkasova  
Ural Federal University  
Russia, 62002, Ekaterinburg, Mira, 19  
o.v.cherkasova@urfu.ru