



ORIGINAL PAPER



DOI: 10.26794/2220-6469-2021-15-4-29-40
UDC 338.1(045)
JEL E02

The Role of “Soft” State Support in Developing Large Business

A.A. Blokhin^a, E.S. Krivova^b

^a Institute of Economic Forecasting of the RAS, Financial University, Moscow, Russia;

^b Lomonosov Moscow State University, Moscow, Russia

^a <https://orcid.org/0000-0003-2132-4664>; ^b <https://orcid.org/0000-0002-5342-0098>

ABSTRACT

The article analyses the consequences of dividing large companies into priority and non-priority ones for the state by including them in the List of the system-forming companies and carrying out appropriate support procedures in relation to them. We have shown that such procedures for the state were rather institutional than financial and costly since support was transferred to large state-owned banks that carried out it while maintaining the principles of self-sufficiency of investments. Comparison of two samples of companies included in this List and their counterparts, not from the List demonstrates a clear difference in their dynamics before the adoption of the List and after it. Priority companies are steadily and many times (3–4 times) growing in terms of revenue, non-priority ones “stagnate”, remaining practically at the same level even at current prices. The almost one-time division of companies by priority in 2009 turned out to be stable over the next decade, which allows us to speak of the resulting redistribution of markets and their transformation in favour of the groups of leaders formed due to it in the respective industry markets. The analysis allows us to evaluate this example as a weak institutional impact, with a noticeable sectoral and macroeconomic effect. We noted that a change in the architecture of markets after the described impact leads not only to a change in the strategies of their participants but also to a restructuring of mechanisms of state regulation.

Keywords: Institutions; risks; system-forming companies; regulation; institutional rent; market architecture

For citation: Blokhin A.A., Krivova E.S. The role of “soft” state support in developing large business. *The World of New Economy*. 2021;15(4):29-40. DOI: 10.26794/2220-6469-2021-15-4-29-40

Most of the papers on the impact of the State on the economy discuss the amount of support, comparisons with the foreign level of subsidy of the business, its lending by the State, development of State ownership, use of State assets for business or market development. A great deal of work has been done on the analysis of State regulatory institutions with reform proposals modelled on those countries that have successfully implemented them. [1–4]

At the same time, the quantitative effects of selected institutional measures, especially those of minor magnitude, have not been widely studied. While we understand the difficulty of constructing such estimates, and even more so of presenting them in a systematic way, we would like to highlight in this paper an example of weak institutional impact on large businesses, of significant quantitative impact on the economy. In particular, we will analyze the consequences of including companies of big business in the List of systemically important organizations of Russia, developed by the Government Commission on Increasing Sustainability of the Development of the Russian Economy (then — the Commission) in December 2008.

High uncertainty 2008–2009, with falling resource prices in world markets, and devaluation of the national currency, the drop in exports, affected most Russian large enterprises, that resulting in reduced investment and bank financing in all sectors of the economy. In the context of a strong deterioration of market and financial situation this could lead to an intersectoral “domino effect”, when the suspension of one major enterprise would lead to a chain of bankruptcies that have a significant impact on the socio-economic situation of the country.

In accordance with official documents, the following measures have been implemented to support systemically important enterprises:

- provision of credit, including government guarantees and interest rate subsidies;
- additional capitalization;
- protectionist measures in the form of customs and tariff policies.

It was noted, however, that the inclusion of an organization in the list was not a guarantee of financial support. The main objective of working with such companies — is to maintain their sustainability using not only credit instruments but also other measures, such as government guarantees, interest rate subsidies, tax debt restructuring, public order, customs and tariff policies, etc. [5]

In practice, the range of measures applied was much smaller than. A working group was set up under the Commission with the participation of the Ministry of Economic Development, the Ministry of Finance and the Ministry of Regional Development, major state banks (Sberbank, IEB, VTM, Gazprombank and etc.), administration of subject of the Russian Federation and management of the company which prepared the Company’s Health Plan for approval, first at the working group and then at the Commission. Not all of these plans were supported.

We stress that the support in this case was provided largely on the basis of professional expertise of the said banks and in the form of credit or other support from them, with partial guarantees from the State. That is, the State used its institutional resource, but spent almost no financial resources. At most — government-controlled banks have been mobilized but have proposed company restructuring projects based on cost-effectiveness, while respecting the principles of cost recovery.

The List was later actively adjusted in 2014–2015, and in 2020 the List was expanded not only to include the List but also the range of State support measures. Then our analysis is therefore

limited to 2019 to ensure methodological comparability.

Thus, even the very fact that large companies were on the List was important to them because it produced visible indirect results. The impact on the companies was primarily in the low-risk and high-finance environment and some other administrative advantages. It should be pointed out that, for a State, such an impact is not very costly in terms of the costs required to achieve the desired results. In any case, the opportunity costs of producing comparable effects without this institutional impact would be markedly higher.

There are other examples of government support for business worldwide. Thus, from 2006 to 2015, Brazil implemented a broad support programmer that included tax credits (2.9% of GDP), subsidized loans (1.3% of GDP), earmarked and non-earmarked loans — both through public banks and private. The main focus of lending was on financing large-scale businesses with fixed capital investments in manufacturing, trade and AIC, and services. The main result of the programmer was a non-business-level environment that allowed both large and small companies to maintain production and improve profitability, and discouraged the entry of potentially more productive firms. Public spending was not commensurate with the result. [6]

The analysis will be based on the theory of economic dominance in a multi-level economy proposed in [7–9], the essence of which is that a business operating in a better institutional setting receives an institutional rent that enables it to grow. On the contrary, a business that finds itself in the worst conditions lags behind the first group and loses its development potential by moving “with great friction”. This is especially noticeable for big business, which itself can influence institutions [10] and form “growth poles”. [11]

The State, by creating better conditions for business, facilitates that it receives from

the buyer of its products an increase in price or a higher margin from a financial, trade or other intermediary organization. The buyer or intermediary pays the business for the reduced risks of its activities, choosing it as its partner, supplier or customer. However, it should be remembered that the size of the market does not change much, and that a business that does not receive this institutional advantage loses part of its market, — it is the management of the redistribution and concentration of resources in the economy, not the creation of new markets or additional factors for their development. The institutional impacts themselves may be small in relation to the resulting institutional rents and their implications for business development. By analogy with investments there can be a peculiar “institutional accelerator”.

Two samples of companies were selected to assess the effects described — List and “analog companies”, as appropriate — comparable in terms of revenue and in the same industries (as of 2005, their revenue varied no more than 3–4 times). Number of companies in both samples for each industry and in general did not necessarily coincide. All companies in two samples had to be in the Expert Rating-400 for 2005–2007. Inclusion in this rating meant that they corresponded to the characteristic of “large Russian companies”, and the use of its data for 2005–2008 allowed a comparison of the series years prior to the development of the List in 2008 and their reaction to the event.

The companies of the largest sectors of the Russian Federation economy were analyzed: energy, chemical and petrochemical industries, non-ferrous and iron and steel industries, engineering (including motor building, engine building, motor building, railway engineering), companies providing communications and telecommunications service. Pharmaceutical, gas, coal, electricity, agro-industry, retailers were not included in the sample, since in

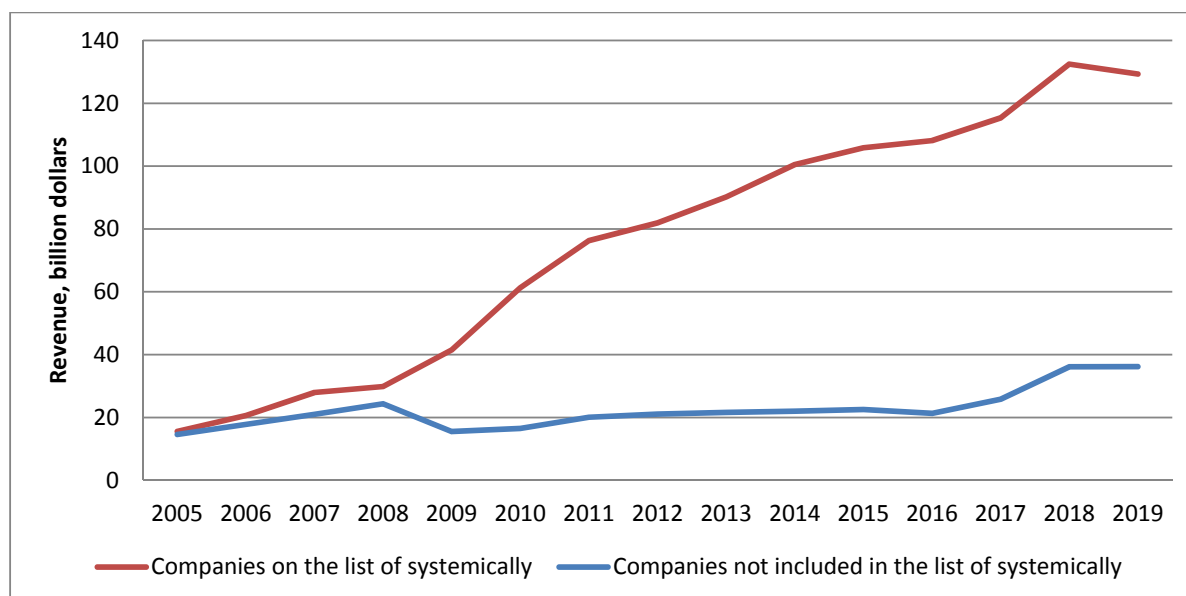


Fig. 1. Dynamics of revenue for two samples of companies, in billion RUB

Source: compiled by the authors based on SPARK data. URL: <https://www.spark-interfax.ru/#/analysis/FIRMS/0/0>.

the Expert-400 rating for them, there were no companies-analogues that did not appear in the List.

The analysis was carried out during a long and rather dynamic period of business development in Russia (2005–2019), during which the names and composition of large companies could change, therefore, in most cases the information for the sample companies was tracked by year of the selected period according to the taxpayer identification number (TIN).

The results of the comparison are presented in *fig. 1–5*.

Graph on *fig. 1* shows average revenue for 27 non-listed companies and 23 listed companies. From his analysis, it can be seen that the inclusion of companies in the List has resulted in a higher growth than that of companies that are not on the List.

In 2005–2008, companies from both samples have similar average earnings, with a significant discrepancy starting from the year of adoption of the List. However, the difference between the two groups of companies is already found in 2009 — the

graph of the “system-forming” sample went up, and analog companies — down. The first group is further steadily “rising” and the second — practically remains about the same level with a small “growth” after 2017.

The measures applied by the Commission (or, more precisely, by listed participants from major banks) to systemically important companies could have an impact on economic performance and the market position of companies, but most were not long- or even medium-term. However, the momentum created by the institutional split into two groups continued throughout the period. That is “state attention” and almost symbolic “administrative approval” were not only significant in the implementation of anti-crisis measures of the Government of the Russian Federation in 2009, but in years. In addition, it should be added that the measures applied by the Commission were “distributed” among companies on the List in a way that was far from uniform, a taking into account the need for support and the possible effectiveness of the measures taken on a case-by-case basis.

Table 1

Metallurgical companies included in both samples

Companies on the list of systemically important enterprises	Volume of realization in 2005 (mln rubles)
Chelyabinsk Electrometallurgical Plant	19 371.6
Plant "Magnezit"	8812.7
Corporation "Avisma"	18 349.8
Russian Bronze Company	14117.3
Companies not included in the list of systemically important enterprises:	Volume of realization in 2005 (mln rubles)
"Profit"	16 800.4
MP "Red October"	8812.7
Zlatoust metallurgical plant	7246
Ashinsky Metallurgical Plant	6836.9
Kosgorod Metallurgical Plant	6290.6
Serovsky ferroalloy plant	6162
Metallurgical Plant named by A.K. Serova	7386

Source: compiled by the authors based on the Expert-400 rating for 2005. URL: <https://raex-a.ru/project/expert400/2005/resume>.

However, all schedules by industry and individual companies (*fig. 2–5*) are roughly synchronous (with some natural differences) going up. The graphics of analog companies from the second sample are equally synchronous almost "not growing".

Such synchronization within each of the samples leads to the additional certainty that it is the division of large businesses into priority and non-priority for government support, it has itself been a factor in their dynamics, creating significant preferences in their development. A similar analysis of four branches of the economy shows

similar performance of companies (*fig. 2–5*). Companies sampled with roughly equal economic performance in 2004–2007.

Metallurgy

Within the framework of this analysis, such companies as "Severstal", "Norilsk nickel", "Euraz Group", "Rusal", Magnitogorsk Metallurgical Plant, Novolipetsk Metallurgical Plant, "Mechel" and others were not included in the sample. Comparison of companies with companies of significantly smaller size did not seem reasonable because of significant differences

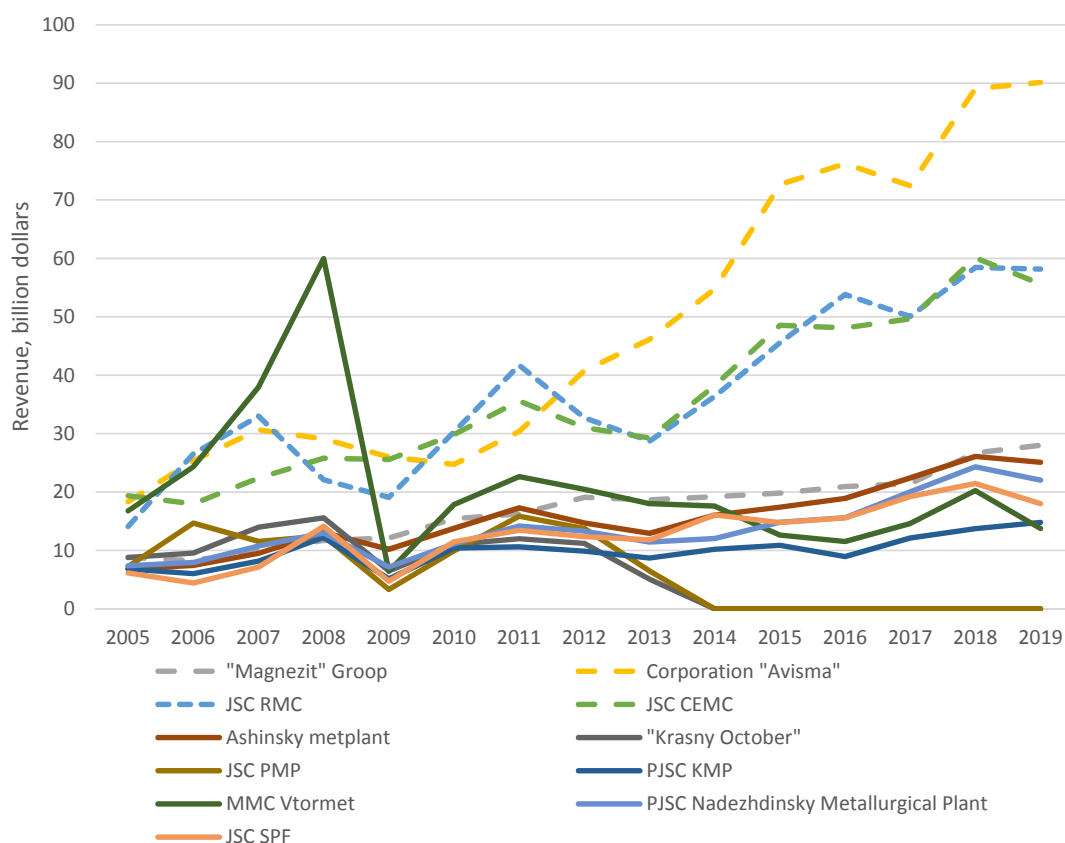


Fig. 2. Dynamics of revenue for two samples of companies in the metallurgy in billion rubles

Source: compiled by the authors based on SPARK data. URL: <https://www.spark-interfax.ru/#/analysis/FIRMS/0/0>.

in revenues in 2005. Companies from both metallurgical samples are represented in table 1.

By fig. 2 it can be seen that companies listed in 2008 are growing faster than their counterparts. This supports the hypothesis that government measures support business in reducing external risks and open up new opportunities for growth — not only for the sample as a whole, but also for the industry. The same hypothesis is confirmed for the industries discussed below. From the graph on fig. 2 it is also seen that two enterprises ceased operations in 2014–2016 (MP “Red October”, Zlatoust metallurgical plant), and the companies that have been included in the system-forming list have a higher level of revenue growth (except LLC “Magnesite Group”, which, on average during 2008–2019, remains higher in revenue than the companies not included in the list).

Oil production

Companies on the List (dotted) and their non-listed counterparts show different revenue trends from the year following the adoption of the List, however, in the period 2005–2008, companies had approximately equal performance (fig. 3).

As in the case of metallurgy, too large companies were excluded from the sample for which no analogues could be found: “Lukoil”, “TNC-BP Holding”, “Rosneft”, “Surgutneftegaz”, “Tatneft”, “Slavneft”, “Russneft”. Oil companies from both industry samples are represented in table 2.

Chemistry and petrochemicals

Companies on the List (dotted) and their counterparts show similar trends as in other industries reviewed (fig. 4).

The chemical and petrochemical industries show a similar trend: listed

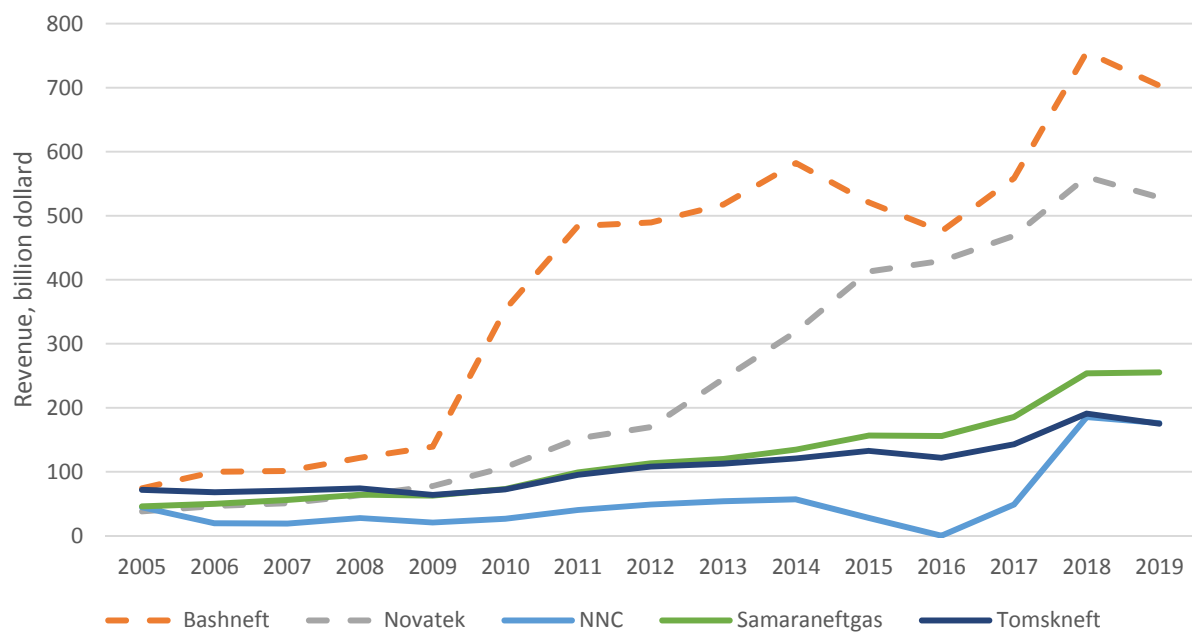


Fig. 3. Dynamics of revenue for two samples of oil-producing companies, billion RUB

Source: compiled by the authors based on SPARK data. URL: <https://www.spark-interfax.ru/#/analysis/FIRMS/0/0>.

Table 2

Oil companies included in both samples

Companies on the list of systemically important enterprises	Volume of realization in 2005 (mln rubles)
"Bashneft"	74 187,30
"Novatek"	38 477,00
Companies not included in the list of systemically important enterprises	Volume of realization in 2005 (mln rubles)
"Samaraneftgas"	45 713,00
"Tomskneft"	71 666,80
OC "Alyans"	44 496,00

Source: compiled by the authors based on the Expert-400 rating for 2005. URL: <https://raex-a.ru/project/expert400/2005/resume>.

companies outperform non-inclusive companies, with strong growth starting in 2008–2009. Companies in both chemical and petrochemical samples are represented in table 3.

Machinery

Engineering is the largest industry by number of companies analyzed, as this is the predominant direction in the List. The

selected companies on the List (dotted) and their analogue companies are represented on fig. 5.

JSC "Tagaz" and JSC "Izhavto" have ceased their activities. Six companies on the List have higher revenue growth than non-listed companies. Engineering companies in both samples are represented in table 4.

As you can see from the graph on fig. 5, in engineering, the prioritization of

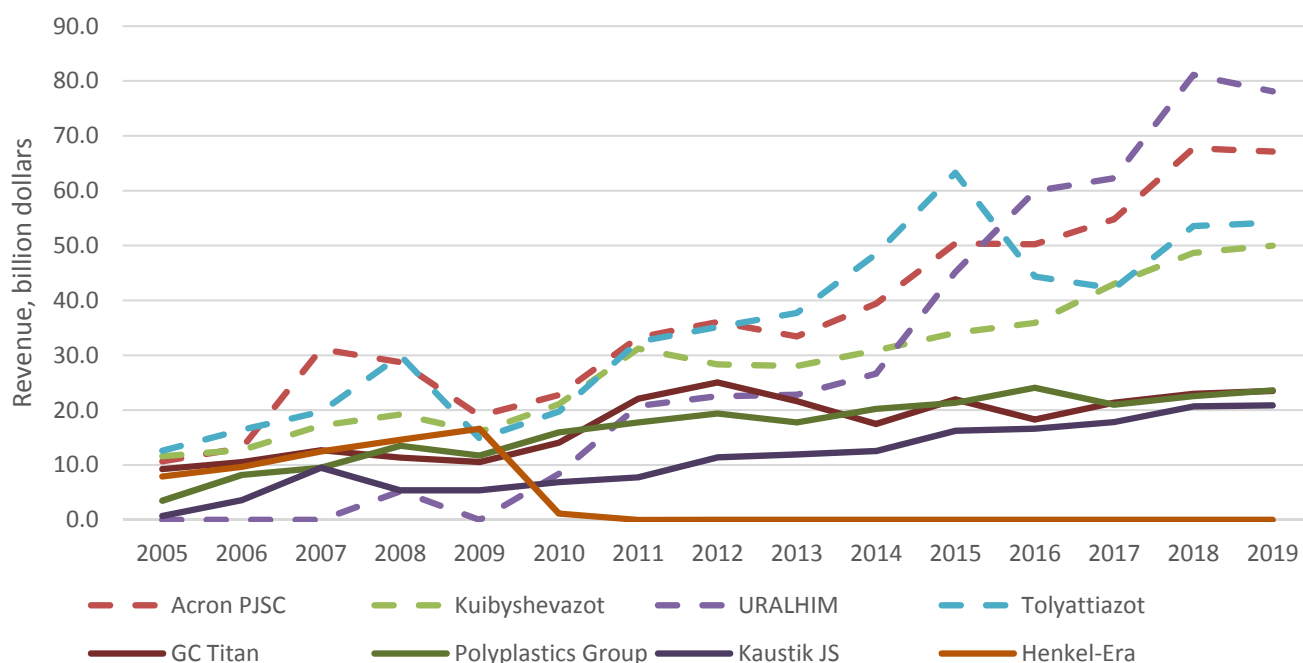


Fig. 4. Dynamics of revenue for two samples of chemical and petrochemical companies, mln RUB

Source: compiled by the authors based on SPARK data. URL: <https://www.spark-interfax.ru/#/analysis/FIRMS/0/0>.

Table 3

Chemical and petrochemical companies included in both samples

Companies on the list of systemically important enterprises	Volume of realization in 2007 (mln rubles)
"Akron"	31 105.2
URALHIM	н.д.
"Tolyattiazot"	19 712
"Kuibyshevazot"	17 331
Companies not included in the list of systemically important enterprises	Volume of realization in 2007 (mln rubles)
"Henkel-Era"	12 479.3
NIKOS Group	11 329.7
Polyplastics Group	9 511.9
Titan Group of Companies	12 705.2

Source: compiled by the authors based on the Expert-400 rating for 2005. URL: <https://raex-a.ru/project/expert400/2005/resume>.

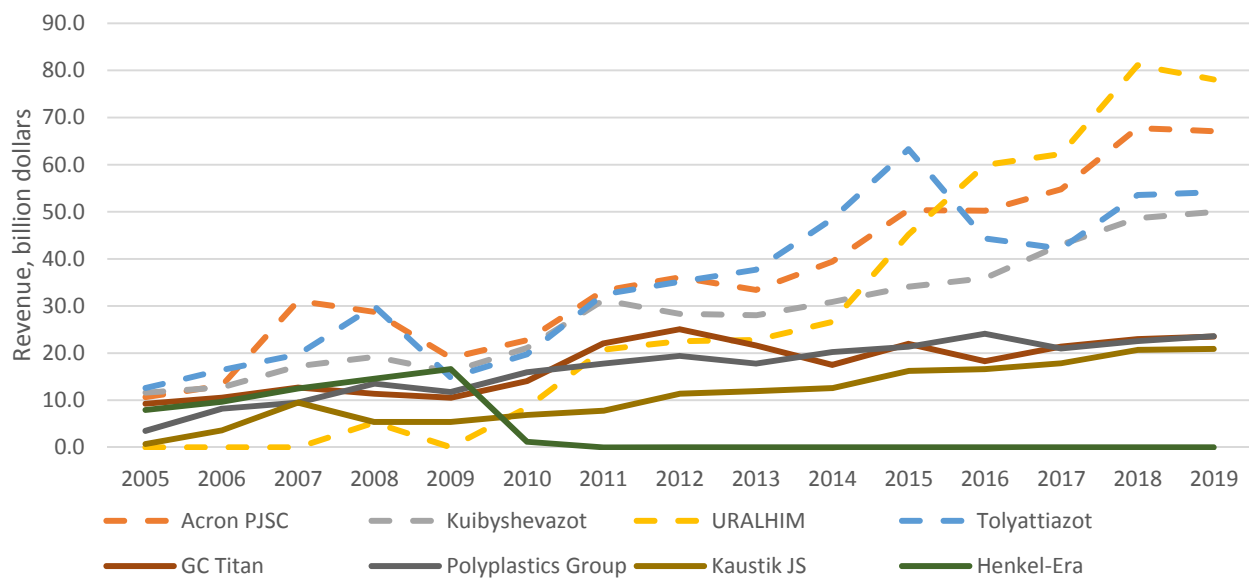


Fig. 5. Dynamics of revenue for two samples of engineering companies, billion RUB

Source: compiled by the authors based on SPARK data. URL: <https://www.spark-interfax.ru/#/analysis/FIRMS/0/0>.

companies has resulted in an equally unclear distribution between winners and losers. The results are more lubricated than in the other industries reviewed. This probably indicates, on the one hand, that the industry is less mature than others to consolidate the leading group and consolidate its institutional advantages, and, on the other hand, that it has brought together very different companies from its subsectors, weakly competing in markets. However, once again, the impulse of the company to enter the List contributed to their growth, and the failure to do so was doomed to stagnation. It should be borne in mind that all the figures given are in current prices, — they have deteriorated in line with inflation.

A number of conclusions can be drawn from the analysis.

1. Weak or “soft” governance can, under certain conditions, lead to visible macroeconomic and/or sectoral impacts. In particular, the article shows that the inclusion of large Russian companies in the List in 2009 demonstrated the division of these into priority and non-priority

for the State. At the same time, the State spent almost no financial resources directly to support them, but rather encouraged large State banks and used administrative resources to organize the work of the relevant commissions. Note, however, that financial expenditures in other areas of the Program of Crisis Measures of the Government of the Russian Federation of the period were made in significant amounts, but decisions on these measures have been taken under other procedures and without regard to the work of this Commission. In this sense, the establishment of the List and the support of its member companies can be considered a relatively weak State influence, institutional rather than financial.

2. The article evaluates the effect of this low level of exposure and shows that it has been noticeable at the level of quantitative performance of companies. In particular, when comparing two samples of listed companies with their counterparts in other large companies, of comparable size and industry, — it was found that companies in the first sample performed 3–4 times better

Table 4

Engineering companies included in both samples

Companies on the list of systemically important enterprises	Volume of realization in 2007 (mln rubles)
"Power Machines" Concern	19 697.8
"Irkut" Corporation	26 159.2
Ufa motor-building software	15 829.9
"Uralwagonsavod"	31 595.4
"Sevmash"	6 900.4
"Energy" by C.P. Korolev	10 309.2
Companies not included in the list of systemically important enterprises	Volume of realization in 2007 (mln rubles)
Taganrog Automobile Plant	28 067
"Izhavto"	23 068.5
"Indezit International"	18 896.4
Company Group "Electric Shield-Samara"	17 010.2
"Hydraulic Machines and Systems" Group	13 399.4
"HTZ" Group	11 592.9
"Sevkabel" Holding	10 582.3
"Boretz"	7 889.1

Source: compiled by the authors based on the Expert-400 rating for 2005. URL: <https://raex-a.ru/project/expert400/2005/resume>.

than companies in the second sample. This result can be seen for individual industries and for the sample as a whole. Company performance increases over the 10-year period after entry into the List. For analog companies, performance is almost stagnant for most of the period, even at current prices.

3. Almost a single institutional impact produced a sustainable result over a long period of time. This means that relevant markets have been redistributed and transformed, and this has resulted in a sustainable advantage that provides leaders with institutional rents. Companies "stratified" by hierarchical levels and this, in turn, allowed "priority" companies to take the leading positions, institutionally

establishing their right to control the market from the entry of the aspiring companies. [12] On the contrary, non-priority companies have long fallen into an institutional trap [13] and got stuck in it. This confirms the mechanism for the formation of dominant structures in a multi-level economy [14, 15] through the acquisition of institutional advantages and institutional rents as described in the next source. [7–9]

4. Industry-by-industry comparisons show that the effect of the division of priority and non-priority companies is more pronounced in such industries, like metallurgy, chemistry and petrochemicals, oil production, and more lubricated in

mechanical engineering, which can be explained both by the greater diversification of its sub-sectors and by the fact that the industry is still in the process of developing its architecture, and this weak institutional impact has failed to entrench the division into leaders and outsiders.

5. Methodological tool has worked and can be used for more detailed assessments, but not universal. Its main difficulty — identification of weak institutional impacts with significant effects, which can only be done in a meaningful analysis. The main point, however, is that it has led to the discovery of a precedent in which such institutional acceleration has become a

reality. *Leave aside the assumption that the Government of the Russian Federation has listed the same companies, which are able to grow rapidly, “guessing” their forthcoming positive dynamics. It should be emphasized, that the resource of such administrative impacts is limited and may not always be effectively used.*

6. Regulation of markets, in which State-led leadership groups have emerged, need to conduct a new balance of interests among participants. Changing the architecture of markets after these impacts leads not only to changes in the strategies of market participants, but also to changes in government regulations.

REFERENCES

1. North D. C. Institutions and economic growth: An historical introduction. *World Development*. 1989;17(9):1319–1332. (Russ. ed.: North D. C. Instituty i ekonomicheskii rost: istoricheskoe vvedenie. *THESIS: teoriya i istoriya ekonomicheskikh i sotsial'nykh institutov i sistem* = *THESIS: Theory and History of Economic and Social Institutions and Systems*. 1993;(2):69–91. URL: http://socioline.ru/_seminar/predmet/om/s_nort-1993.pdf
2. Auzan A. A. et al. Institutional economics: A new institutional economics theory. Moscow: INFRA-M; 2011. 447 p. (In Russ.).
3. Shastitko A. E. New institutional economic theory. Moscow: Economics Faculty of MSU, TEIS; 2002, 591 p. (In Russ.).
4. Mau V. A., Kuz'minov Ya. I., eds. Strategy 2020: New growth model — new social policy. Final report on the results of expert work on topical issues of Russia's socio-economic strategy for the period up to 2020. Bk. 1. Moscow: Delo; 2013. 430 p. (In Russ.).
5. Obaji N. O., Olugu M. U. The role of government policy in entrepreneurship development. *Science Journal of Business and Management*. 2014;2(4):109–115. DOI: 10.11648/j.sjbm.20140204.12
6. Dutz M. Business support policies: Large spending, little impact. Washington, DC: The World Bank; 2017. 46 p. URL: <https://openknowledge.worldbank.org/bitstream/handle/10986/28946/121668-REVISED-Brazil-Public-Expenditure-Review-Business-Support-Policies.pdf?sequence=1&isAllowed=y>
7. Blokhin A. A. Institutional rent in a multilevel economy. *Studies on Russian Economic Development*. 2019;30(4):376–383. DOI: 10.1134/S 1075700719040026 (In Russ.: *Problemy prognozirovaniya*. 2019;(4):16–26).
8. Blokhin A. A., Lomakin-Rumyantsev I. V., Naumov S. A. Alpha business in the Russian food market. *Ekonomicheskie strategii* = *Economic Strategies*. 2019;21(6):68–77. (In Russ.). DOI: 10.33917/es-6.164.2019.68–77
9. Vertogradov V. A. Alpha market strategies, beta and gamma in the context of theory economic dominance. *Ekonomicheskie strategii* = *Economic Strategies*. 2020;22(2):50–53. (In Russ.). DOI: 10.33917/es-2.168.2020.50–53
10. Pappe Ya. Sh., Galukhina Ya. S. Russian big business: The first 15 years. Economic chronicles 1993–2008. Moscow: SU HSE; 2009. 423 p. (In Russ.).
11. Perroux F. Note sur la notion de pôle de croissance. *Économie appliquée*. 1955;8:307–320.

12. Fligstein N. The architecture of markets: An economic sociology of twenty-first-century capitalist societies. Princeton, NJ: Princeton University Press; 2001. 274 p. (Russ. ed.: Fligstein N. Arkhitektura rynkov: Ekonomicheskaya sotsiologiya kapitalisticheskikh obshchestv XXI veka. Moscow: HSE Publ.; 2013. 392 p.).
13. Polterovich V.M. Institutional traps and economic reforms. Moscow: Russian School of Economics; 1998. 42 p. (In Russ.).
14. Yaremenko Yu.V. Structural changes in the socialist economy. Moscow: Mysl'; 1981. 304 p. (In Russ.).
15. Yaremenko Yu.V. Theory and methodology of researching a multilevel economy. Moscow: Nauka; 2000. 400 p. (In Russ.).

ABOUT THE AUTHORS



Andrey A. Blokhin — DSc in Economics, Chief Researcher at the Institute of Economic Forecasting of the Russian Academy of Sciences, Professor at the Financial University, Moscow, Russia
andraleks@rambler.ru



Ekaterina S. Krivova — 1st year master's student, Faculty of Economics, Lomonosov Moscow State University, Moscow, Russia
krivova.ekaterina99@gmail.com

The article was received on 20.08.2021; revised on 15.09.2021 and accepted for publication on 30.09.2021.

The authors read and approved the final version of the manuscript.