A NEW APPROACH TO CREATING STATE-OWNED ENTERPRISES IN UKRAINE

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Abstract. The paper discusses the contradictions of state policy in the sphere of public ownership. It is noted that in the Ukraine there is a movement towards liberalization of all areas of public life which, on the one hand, justifies itself in the context of deregulation of certain spheres of the economy but, on the other, assumes a threatening character with regards to the unwarranted privatization of public property, etc. The inconsistency of the dominant scientific point of view on minimizing the participation of the state as the owner (entrepreneur) is emphasized. It is proposed that a system of innovative enterprises be created that would be able to accelerate the renovation of production in Ukraine. A new approach to the creation of state-owned enterprises has been developed. The expected results of the activity of the newly created state-owned enterprises and the directions of their further transformation are determined. The proposals presented in the paper will ensure the growth of the production potential of the domestic economy, which will be key to the accelerated socio-economic development of Ukraine.
Keywords: state-owned enterprise, privatization, approach to creating state-owned enterprises, planning, organization, control, transformation, competitiveness, socio-economic development.

Raktiniai žodžiai: valstybinė įmonė, privatizavimas, požiūris į valstybinių įmonių kūrimą, planavimas, organizavimas, kontrolė, pertvarka, konkurencingumas, socialinė ir ekonominė plėtra.

Introduction

In recent years, the scientific community and public authorities have been paying less and less attention to a sufficiently broad ownership capacity of the state in certain sectors of the national economy where it acts as an owner (or co-owner) of enterprises and institutions aiming to form points of growth and promoting the development of the country’s economic priorities. The situation is most likely to be associated with sentiments and trends within the society that are oriented towards libertarian ideas, rather than with a misunderstanding of the perspectives of this function of the state.

This is the divide between the economists who advocate exclusively private property and market economy (Friedman 2009; Hayek 1998, etc.) and those who argue for state-owned enterprises and mixed economy (Keynes 2003; Galbraith 2004; Reinert 2010; Stiglitz 2016, etc.).

The present state economic policy of Ukraine is characterized by a focus on a total deregulation of the economy, which is rather alarming. After all, the private sector alone is not fully capable of making large investments, or of the timely upgrading of privatized enterprises or creating new high-tech production facilities. The scientific and technological backwardness of Ukraine is its major challenge, turning the country into a raw material appendage of the world economy. All this initiates a search for the ways to restore high-tech industries in order to accelerate the development of the Ukrainian economy and harmonize the country’s social standards with those of the EU. Thus, the purpose of this paper is to develop a new approach to creating enterprises with state (or mixed) ownership that would be able and interested in accelerating the renovation of the high-tech production in Ukraine.

The theoretical and methodological basis of the research is formed by the fundamental principles of the science of public management and administration, economic theory, and works by Ukrainian and foreign scientists on the issues of state policy pertaining to public ownership. To achieve the purpose of the research, the following methods were used: a historical and logical method – to establish an economic entity that is able and interested to accelerate the renovation of production in Ukraine; a complex method – to develop ways to create state-owned enterprises; abstraction and concretization – to determine the expected results of the activity of newly created state-owned enterprises and lines of their further transformation; generalization – to form conclusions.
Investment: private or public, foreign or domestic?

The governments of most advanced countries have taken quite a clear position on the concentration of their domestic production, allowing domestic companies to act like monopolies. A policy aimed at enlargement of enterprises rather than at fragmentation is considered to be right, given the increasing concentration and competition of big capital in the global markets. It is powerful industrial structures that are capable of providing productivity gains, creating closed production chains with high added value, increasing a share of high-tech and science-intensive industries, and enhancing the innovation activity of economic entities. However, large enterprises and associations in the Ukraine are in small numbers, although they account for almost 40 percent of sales and basic employment (Derun 2018, 156).

In such a situation, it should be determined who has the ability and interest to create large enterprises in Ukraine. These may be the Ukrainian private investors; yet, practice shows that their investment activity is low in the real sector of the economy, in high-tech and long-term production projects. In addition, for many reasons, these investors are increasingly acting through offshore companies, presenting their investments as foreign, which may be contrary to the public interest.

As to foreign investment, transnational corporations’ interests are also quite dissonant to those of society, and these corporations can prove even tougher competition than the interests of the local oligarchy, which often becomes an integral part of the global corporatocracy. This finds expression in expanded spiritual, informative, economic, political and other kinds of power meant to achieve the strategic and operational goals of the oligarchic business. In this way, enterprises focused on the domestic and foreign markets are created. While a positive short-term effect for the national economy is manifested in the creation of jobs, infrastructure development, increased tax revenues and fees to budgets of different levels, etc., it is offset by the fact that the net profit of such enterprises is taken out of the country (“aging” of investments), and the risks of corporations’ power expansion in the political sphere emerge, which threaten the country’s sovereignty.

In addition, the recent trend of a restraining policy on the part of advanced countries (the USA, the EU) with regards to the transfer of technologies to the third world countries, when foreign investments do not change their status of raw-material appendage whatsoever, should be noted. For example, today China is also doing this when it buys the EU companies not so much for profit-making, but for the domestic use of their intellectual property (Trade and Economic Interaction 2017) and further driving competitors out from the market. Therefore, it is necessary to face the reality and be careful and selective when attracting foreign investments, focusing exclusively on those who are ready to transfer the existing, along with developing new, modern technologies aimed at mutually beneficial cooperation with the domestic or joint ventures that retain their Ukrainian jurisdiction.

An alternative investment form is public authorities’ creation of state-owned enterprises (or those in mixed ownership, based on public-private partnerships). It should be noted that today Ukraine still has the potential to implement accelerated produc-
tion renovation. Accordingly, the newly established enterprises should act as scientific and production associations including research, design, and technological organizations, trial production facilities and industrial enterprises, etc. which will ensure the accelerated development of science within the system of “science–technology–production”.

Today, state-owned enterprises are divided into two groups, namely: those which operate according to market rules and those serving the specific interests of society. This paper discusses the creation of state-owned enterprises of the first group. Consequently, newly created entities should operate in accordance with the market laws, be competitive, increase the value of government assets and strengthen the socio-economic sphere. At the same time, the functioning of such enterprises should be characterized by the fact that, in the conditions of the internal market saturation with their products, their first priority is not profit, but a desire for stability and the socio-economic development of society.

It should be pointed out that the economic policy of the Ukraine is aimed towards a gradual narrowing of the public sector. During the years of privatization (from 1992 to 2018), over 133 thousand facilities were privatized in the country: 29,859 state-owned facilities and 103,364 items of communal property (State Property Fund of Ukraine 2019). By the end of 2019, the Ukraine is expected to adopt the law “On Declaring Invalid the Law of Ukraine “On the List of Public Property Items Exempt from Privatization” (Verkhovna Rada of Ukraine 2019). The law, if adopted, will allow the privatization of 1,500 strategic state-owned enterprises. Over the past five years the share of the public sector in the economy has fluctuated between 10 and 14% (Ministry of Economic Development 2019), which does not allow the state to affect the economy technologically and structurally. In this situation, it is expedient to consider privatization processes in a careful way.

Numerous attempts to build a theory that proves the macroeconomic effectiveness of privatization have not met with success and did not show a direct interdependence. On the contrary, empirical studies support the hypothesis that in the catch-up countries the role of the public sector should be greater than in the advanced countries (Polterovich 2012, 20-22). Even if a country belongs to a group of advanced economies, as a rule, it still retains its strategic, socially significant enterprises and institutions – e.g. American NASA, French car manufacturers, Korean, Japanese, and Chinese financial institutions, etc. – which are generally cost effective (Kovalev 2018, 5; World Investment Report 2011, 30).

The results of economic reforms in the People’s Republic of China, which have cast doubt on the belief that the dominance of private property is a sine qua non of the country’s economic performance, are illustrative. The Chinese experience has shown that both state-owned enterprises and those collectively owned by local government bodies are one of the main success factors for economic reform. China’s economy is taking a systemic approach and outlines the ways in which a modern economy can evolve in the face of neo-colonial relations. This model combines planning and market self-organization, demonstrating a successful interaction between the public and private sectors of the economy.

Thomas Piketty stresses that one of the main tasks of the future is the development of new forms of ownership and democratic control over capital. The boundary between
Public and private capital is not as obvious as it is sometimes imagined. There are already many types of economic activity in education, health, culture, media – the forms of organization and ownership of which have little to do with either of the two polar paradigms: pure private capital (with the model of a joint-stock company being in complete control of shareholders), and a pure public capital paradigm (with a vertical logic according to which investment decisions are made by administration). There are many intermediate forms of organizing business entities’ activity which allow an optimal use of information and skills. The market and the state are two polar forms of collective decision-making, consequently, new forms of participation and management have to be invented (Piketty 2013, 696). Considering the impact of scientific and technological progress, and social relations development in the 21st century, the assessment of economic performance will definitely take into account social expediency and benefit, as well as the ability to ensure a more equitable distribution of benefits and resources.

For stable development of the socio-economic sphere, all forms of ownership (private, state, mixed, etc.) must be present in society, which is the case in most of the advanced countries. Historically, the ratio of different types of ownership in different countries is not constant, but has changed dynamically throughout its existence. These changes were significantly influenced by the views and beliefs that dominated in society, as well as the socio-political situation in the country. That is to say, during economic crises, natural calamities, and wars, a significant increase in the share of state ownership can be observed; while under favorable conditions the situation is exactly opposite – private ownership ratio increases and state ownership share decreases. Accordingly, the economic situation and military conflict in the Eastern Ukraine are pushing society towards expanding the public sector.

The essence of the new approach to creating state-owned enterprises

An approach to the creation of state-owned enterprises should be based on the principles of scientific rigor, purposefulness, consistency, effectiveness, adaptability, capacity to contract, openness and transparency, smart-industry nature, etc. (Maximov 2015, 19-23). According to the general theory of management, the approach to creating state-owned enterprises should ensure fulfillment of the functions of planning, organization, motivation and control.

Planning involves defining the purpose, functions, and the priority areas of state-owned enterprises’ activity, as well as their necessary resources. Thus, the purpose of state-owned enterprises is to move from the model of a catch-up economy to one that is able to ensure the transition of society to a qualitatively new technological mode, oriented towards improved standards of living and better conditions for human potential development. To this end, it is advisable to divide the future state-owned enterprises by their functional features: production and technical; management and business activities within the enterprise’s subordination; social; foreign economic; strategic; fiscal and dividend; integrative etc.
Establishment of state-owned enterprises (scientific and production associations) should be planned with regard to restoring the structure of the fifth technological mode (increased scientific intensity and manufacturability, ensuring economy of scale), which will lay the basis for the development of the sixth and the subsequent technological modes (Kindzerskiy 2013):

- machine-tool building and production of technological equipment for modernizing the main industries with high indicators of resource and energy saving, ecology, and automation of technological processes (introduction of robotics);
- aviation and space industry, defense and industrial complex;
- transport engineering (in particular: shipbuilding, wagon-building, expansion of the product line of road transport, agricultural engineering, etc.);
- power engineering (expansion or launch of technological equipment production for generation of electricity from alternative sources: hydrogen, wind, solar, etc.);
- production of sophisticated household appliances and durable electronics;
- “ecological” machine-building (specialized machinery and equipment for purifying soil, air, industrial and domestic waste water, for separate processing and recycling of industrial waste, household waste, used consumer goods);
- systems for environmental pollution control, and the like.

State-owned enterprises are supposed to provide a reduction in scientific and production cycle duration (from new product development to sale in the market), a shortening of equipment downtime, a curtailment of maintenance and inventory costs, and the improvement of labor productivity due to automation. These enterprises should use big data processing technologies in order to optimize production and business processes, namely: smart sensors, remote operating centers, autonomous technological operations and robotics, digitalization of manufacturing processes, additive manufacturing technologies, etc. (Vishnevsky 2018, 22-69). Also, they should be aiming for a gradual decline of domestic prices.

The above technological framework should include the establishment of state-owned enterprises that comply with the sixth technological mode (Grinberg 2010, 27-29), i.e. specializing in:

- nanotechnologies (nanoelectronics, nanorobotics, nanobiotechnologies, etc.), their role being extremely important, since they lead to fundamentally new frontiers in both informatics and molecular biology, genetic engineering, medicine;
- material technologies and information technologies (artificial intelligence systems, global information networks, etc.);
- flexible automation of production;
- space technology;
- production of structural materials with predetermined properties.

The development of nanotechnology, the transformation of substances, and the design of new material objects, along with the development of the electronics industry, information technologies, and advanced software, will have a qualitative impact on conventional production, which together will allow for further scientific and technological breakthroughs.
To set up state-owned enterprises, the following resources are required: finance, labor, entrepreneurial capacity (ability to organize production), intellectual capacity, natural resources (land, mineral, water, biological, etc.), material resources (means of production), etc.

The resource potential of the Ukraine is considerable. Under the effectively organized activity of state-owned enterprises, this potential can promote the country’s economic development. At the same time, this requires annual investments of tens of billions of US dollars. Today, there is an urgent need to provide capital investment with sufficient low-interest long-term credit resources. An important factor in the context of monetary policy implementation is the interaction of the National Bank of Ukraine and the government in coordinating the use of monetary policy tools – in the first place, interest rates, volumes and purpose of refinancing, open market operations. The key to implementing an effective budgetary policy is special-purpose programs. They are aimed at guaranteeing a rational and effective mobilization, distribution and use of state budget resources. The world practices of implementing projects of such a scale speak in favor of forming state development banks which would focus on financing state programs and the realization of socially significant investment projects, along with providing financial and credit support for projects on organizing state-owned enterprises’ activity. Development banks should become internal credit issuers and financial agents of the state in order to accelerate its socio-economic development. Therefore, to carry out the intended arrangements, first of all it is necessary to reform the domestic banking system so that it can obtain a sovereign right to issue money, and establish a mechanism for domestic (national) crediting (Kovalenko 2018).

Organization envisages a decision by an authorized body of state power to establish a state-owned enterprise (possibly with the participation of private capital) and the implementation of the following stages: initial, preparatory, registration, organizational. The most responsible in terms of management is the initial stage which should start with forming a project team of specialists and representatives of various government agencies with, if necessary, the involvement of external consultants. The aim of the team is to distribute tasks and powers between contractors, and to form the project’s organizational structure and its budget. The work of the group lays the basis for the project’s business model – a documentary justification for the launching of the work, which will later serve as a guide for checking its progress (Fedirko 2014, 60).

The following arrangements should be made: defining the mission of an enterprise; choosing a kind of entrepreneurial activity (areas of activity); searching for partners (if necessary); business plan preparation; choosing the legal form and name (brand); defining an enterprise’s goals; assessing and analyzing the external environment; defining the strategy of an enterprise; determining the size of the statutory fund (initial capital) and sources of financing; electing or appointing the head of an enterprise. The second stage (preparatory) of setting up an enterprise involves: preparing and drawing up the founding contract; preparing and drafting an enterprise’s charter; determining its legal address; drawing up a package of protocols of cooperation intentions (if necessary). The registration stage of setting up an enterprise includes: forming a registration package, con-
tributing the necessary amount to the statutory fund and making obligatory payments; registering an enterprise with the relevant government bodies; opening an account with the Treasury and bank institutions, etc. (Shmorgun 2010). In turn, the final (organizational) stage provides for (Kovalenko 2013): the organization of the management of an enterprise; the formation of chains of resource supply and sales of products/services; personnel recruitment; the organization of production process, etc.

When choosing partners to be engaged in construction and equipment of state-owned enterprises with the most advanced types of high-performance outfit, competitive bidding should be applied, inviting companies and organizations with the relevant experience and technical capabilities. These can be public or private organizations, or foreign companies ranked according to the advantage they provide for the process.

Private business should also be involved in the projects of creating state-owned enterprises (public-private partnerships), which will allow for expanding the funding base at the expense of private sources, redistributing and reducing project risks, and, most importantly, obtaining partner control. With such a partnership, it is necessary to determine in advance a state share in the authorized capital of an enterprise, which should depend on the sphere of activity of a newly created entity and the level of its strategic importance for the country.

There are two directions that motivate the participants to set up state-owned enterprises.

The first one relates to the financial sphere. It is necessary to ensure a systemic, non-inflationary rise of wages with regard to both project participants and the society as a whole, which would eventually result in stimulation of the final demand. At the same time, it is important to increase the state funding of fundamental and applied scientific research by at least 3% of the country’s GDP, which will allow domestic scientists and leading experts to realize their potential in the Ukraine.

The second direction provides the ideological component of education and training of the population with regards to forming traditional moral values; raising the level of education, developing the feeling of pride in the state; inculcating a desire to contribute to the country’s progress; building a just society etc. The level of education in the country must meet the growing needs of production and the economy. Therefore, it is necessary to radically change the state education policy to orient the education system and society towards a high quality of training specialisms, and to provide for the comprehensive education and development of young people in order for them to be able to live and work effectively under the conditions of a knowledge economy. Education must be mainstream, not elitist.

Control involves a continuous monitoring and evaluation of the planned projects’ progress, as well as their cumulative (constructive/destructive) impact on other areas of the socio-economic life, along with a timely tracking of deviations from the planned results, with subsequent adjustments and faster implementation of the appropriate solutions. It should be noted that the whole process of creating state-owned enterprises should be carried out with responsibility and comprehensive public control, which
would include a monitoring (by both the competent controlling bodies of the state and the public) of the activities related to the process.

The results expected from the activity of newly created state-owned enterprises and directions of their transformation

The expected results of creating state-owned enterprises are as follows: macroeconomic stability, self-sufficient economy, sustainable development in harmony with the environment, and formation of a socio-economic sphere that would contribute to human potential development. The indicators by which the extent of the process implementation can be evaluated are: creation of effective enterprises; a stable growth of the real GDP; active balance of payments; a real growth of people’s incomes; a positive population growth dynamics; full employment; a comprehensive development of healthcare; breakthroughs in science and technology; a rise of society’s cultural level (Ziuz 2018). After a newly created state-owned enterprise begins operating, it can be transformed into a partially privatized one, which is possible under the following conditions: achievement of set goals; realization of planned structural influence on the country’s economy; employment of new technologies and resources; allowing the state to be the majority shareholder. These measures should also be backed up by property socialization policies, through redistributing part of a state-owned enterprise’s shares among its workers. This would increase their interest in the results of their work, encourage them to make rationalization proposals to reduce net cost and improve product quality, and would get them involved in managing an enterprise, in fact, making them co-owners. Notably, the above process should be cyclic and continuous: “creation of state-owned enterprises – privatization/socialization – creation of state-owned enterprises, and so on”. Under these conditions, the private sector, society, and the state as a whole will develop, their synergies being strengthened.

Carrying out an anti-corruption campaign is no less important for the implementation of the above measures. There should be a strong response by the country’s leadership to address such acute social problems. Public officials, fearing corruption charges and an inevitable severe punishment, become more responsible and are less likely to make criminal or unjustified managerial decisions that could lead to socio-economic losses (Kovalenko 2019, 88).

Conclusions

It is pointed out that the governments of most advanced countries are pursuing policies that allow domestic production to concentrate and act like monopolies. For the Ukraine, this practice, as well as the conditions in which the state has found itself, actualizes the need for the development of the national economy through the creation of state-owned enterprises which will effectively operate in both domestic and foreign markets. Such economic entities should become “locomotives” and “growth points” of the national economy, pro-
viding impetus and a multiplier effect for the rise of the private sector’s economic activity, development of high-tech industry, innovations etc.

1. An approach to creating state-owned enterprises has been developed, which envisages the initiation by the central executive authorities of measures for a purposeful use of national resources for the creation of new structures and the technological modernization of existing state-owned enterprises in order to accumulate the potential for further progress. This policy allows the state to receive additional fiscal and dividend payments to budgets of various levels, which can be redirected to the maintenance of the socio-economic sphere in the framework of human development. In turn, through public-private partnerships, the private sector will be able to obtain technologies and resources for the restructuring and expansion of its own production.

2. The results expected from the activity of newly created state-owned enterprises and the indicators by which the degree of implementation of the discussed measures can be estimated. The directions of further cyclic and continuous transformation of newly created entities are outlined. The new approach to creating state-owned enterprises in the Ukraine discussed in this paper should ensure the growth of the production potential of the domestic economy, which will be the key to an accelerated socio-economic development of the Ukraine.

Further research should focus on developing an effective model for managing state-owned enterprises, both at the national and state-enterprise levels.

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Naujas požiūris į valstybinių įmonių kūrimą Ukrainoje

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