

PRINCIPLES OF ASSET MANAGEMENT IN PUBLIC AND PRIVATE SECTORS

Abstract. The paper proposes and disclosed the content of the basic principles of asset management in the private and public sector, in order to use them to evaluate the effectiveness of the process of privatization and nationalization of assets. Of course, each of the principles has its purpose, but together they form a scientific model of data management of processes, can justify the decision criteria. In organizes the management of property and assets in both the public and private sector.

Keywords: Principles of management, the public and private sector, privatization and nationalization

Let's formulate the main principles of privatization in any economic system. These principles allow to develop a model (scheme) controls the process of privatization and nationalization, which form the basis of modern institutional influences on the economic system. Consider each of the principles introduced separately. Principles of asset management which can be designated as the principles of privatization and nationalization in economic system are of economic value.

1. **Adaptability and adequacy.** Privatization plan should include the purposes and problems and estimation of important parametres of privatization (scope, kinds of privatized assets-objects, value of these objects, assets, privatization speed, form, legal foundation, calculation of efficiency criteria – though they have theoretical drawbacks, but nevertheless they give a rough estimate of privatization adequacy). The plan should correspond to adequacy principle, that is, it should be adequate to the problems of economic development and should not reduce the basic parametres of social and economic development and efficiency. It should also correspond to adaptability principle, that is, it should give time lags to agents for them to get used to the changing situation connected with the change of assets possession structure, motivations, wages change, possible unemployment growth (in an ideal it should be eliminated). The necessity of privatization, its scope and speed (adequacy) should be substantiated and measures on damping negative possible manifestations (adaptability), for example, rejection by employed population are suggested.

2. **Recurrency.** This principle postulates possibility to change privatization vector and the matter, up to cancellation of privatization of some objects, if unpredictable costs (transformational and transactional) sharply and unexpectedly increase. Besides, the recurrency principle should mean, that privatization can be reconsidered or cancelled by the state if legal violations are revealed in the course of its carrying out. Models of such cancellation demand special working out, but now the

very statement of necessity of such schemes corresponding to the principle of recurrency of actions is important.

3. **Adjustment.** This principle means that the price of the asset being sold or sale conditions can be changed or the state will keep a certain control over the assets during its subsequent exploitation. Or the list of privatized assets can be changed, and nationalization list is introduced. By the way, in case when some assets to be privatized are unnecessary for the state, but other kinds of property to be nationalized are extremely necessary, the adjustment principle means calculation of equivalence of the sums which should be obtained from privatization of one assets (property) to get other assets as state property. Thereby, adjustment of property and assets structure will be provided. That is why this principle is designated as adjustment principle.

4. **Planned recoupmnt.** It is the principle of stage-by-stage evaluation of costs and incomes and financial stabilization. To fulfil this principle it is necessary to use design solution methods of poorly structured problems of planning and management, and to use the criteria of project recoupmnt (financial criteria are presented below).

5. **Safety.** It is the principle of adherence of economic and military and technical of the state security. Privatization should not worsen the parametres of economic and military and technical security and strengthen the negative externalities referred to of military security.

6. **Principle of institutional planning.** This principle includes several principles which we will show below and it is the major condition of efficient control of privatization and nationalization process.

The following ones will be referred to such principles and they will have continuous numbering¹.

7. **The principle of setting the objective.** Institutional planning is a set of administrative procedures, the execution of which is a special task of the government though individual economic agents can be engaged in it - firms, large corporations, associations, public organizations, unions, and etc. First of all, it is necessary to define the purposes of institution planning and to get a general idea about desirable or undesirable state of the economy. Secondly, it is necessary to analyze, how well the planning body understands the available social problems and whether there exist institutional possibilities of their settlement. Besides, it is necessary to formulate some purposes to distinguish the declarative, unrealizable purposes from really achievable ones. Thirdly, it is required to develop some variants of institution design which, according to the planner, are capable to achieve the objective (objectives). Fourthly, it is required to generate criteria of institutions selection and to carry out comparative analysis of different variants on the basis of resource provision and limitation of time. Fifthly, it is necessary to choose the variant (institution) and to adapt it to the conditions of economic environment. Besides, it is especially necessary to define the possibilities of introduction of new institutions in the mode of “borrowing”, that is,

¹ Sukharev O.S. The Theory of Economic Dysfunction. – M.: Mashinostroeniye (Machine Building). – 2001.

being oriented on the experience of the rules in other social and economic system (effectiveness from functioning).

8. The principle of defining application area. Before designing (creating) an institution, it is necessary to define what niche in economic structure it will occupy. This niche is application area of a specific institution. Formal institutional structures can be global, that is, they can extend influence on economy as a whole, or they can be local, they influence strictly on certain groups of economic agents. This gradation allows singling out accurately the area of application of the designed and introduced institution. But it is not enough for defining the area of institution application. It is required to define its actual position in the economic structure into which the given institute is introduced and to get all the characteristics of the object of institutional transformations to foresee the possible changes of these parameters in the best or in the worst way. As the designer has several variants of institution it will be required to carry out comparative analysis to find out the most productive institutional form. Actually, it is necessary to analyze the parameters of application area and adjacent areas of future institutions and then to carry out their joining and “implantation” of new institution.

9. The principle of functional completeness. This principle allows answering the question: what will institution do in its niche and what functions will or will not it carry out? Besides, it is important to understand, what functions should and should not be carried out. There arises the problem of measure, completeness of functions and institutional adequacy here. Functions arise on the basis of what actions should be carried out, what agents are involved in the new scheme of interaction, what operations are carried out at that, what problems are solved, what are the changes and what incomes and costs are. The quantity of functions should not surpass a certain admissible limit. Otherwise there arises an institution dysfunction at the stage of its designing. However, it should not be small as then the expenses for creation of this institution won't be justified. Each institution has a mission to execute a certain set of functions. If the rule is introduced, but it does not cover its functional area, the costs exceed benefits and there is a typical “investment trap”, the main characteristic of which is unjustifiedness of means (resources) investments.

10. The principle of requisite variety. Actions of agents are extremely various. Institutions structure this variety, making them to act within the limits of the established rules. The known rule from cybernetics says: the system keeps stability, if the variety of managing group is not less than the variety of managed object. Hence, institutional matrix should come to conformity with the matrix of individual actions. In other words, the variety of action and institutions models should not differ strongly though it is impossible to achieve exact coincidence.

11. The principle of necessary perception. At institutional planning it is necessary to act on the premise that subjects (enterprises) and agents do not accept new institutions, they reject them often enough. If the number of such institutions is great enough, economic system can start to degrade and the rate of this process will be

defined by the intensity of rejection of introduced rules. Hence, adjustment of former structures to expected innovations should become one of the planning problems.

12. The principle of stability to changes. Institution stability to changes is programmed by strict observance of the first five principles and the seventh one. Instability is a vivid sign of institution dysfunction and is expressed in appearance of deviant forms of behaviour, non-obedience to the established rules and opportunism.

13. The principle of monetary support. Institutions cannot function without cash security. If institutions are not provided with money, it will be impossible to organize any effective work of current institutions and, all the more, newly created ones. Privatization also demands expenses, it changes the structure of assets, creates new rules of privatization and motivation carrying out, and, hence, the new rules or mental models of players' behaviour in the market. So, it is necessary to take this aspect into account, as efficiency of privatization and further functioning of changed property will depend on how monetary streams are distributed according to the assets structure.

Non-observance of one of the principles is fraught with appearance of dysfunction of organization, institution, process and action as the objects of institutional planning. In other words, inefficiency can be installed at the planning stage due to the infringement of the principles of institutional planning.

More than once supporting application of the designing approach in economy and in economic science, I can confirm its utility in the analysis of privatization and nationalization, and, what is especially important, in management of privatization and nationalization. Designing assumes substantiated choice of priorities and alternative variants with a definitive reasoning of one variant which can be updated and corrected in the course of its implementation. The plan and the project can include such activity right away. It is an immanent principle of planning and designing. Today nobody sets abstract objectives and priorities. Behind each purpose and priority there is a project or a development program. The problem here is that there can be tens of such projects even on privatization. And a priori efficiency is a seeming efficiency, non-registering conditions and state of a certain subsystem or economy as a whole. Such efficiency appears to be rather relative. Any projects are realized within the framework of the main directions which are subject to selection, as well as the projects. The same refers to privatization and nationalization which can be presented as a certain project covering either all the economic system, or its separate sectors. Priorities are definitely important here, and nobody chooses them in abstracts any longer.

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