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## FEATURES OF FORMATION OF FINANCIAL AND INDUSTRIAL GROUPS IN THE WORLD ECONOMY

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The article is devoted to the study of the peculiarities of the formation of financial-industrial groups in the world. At the present stage in countries with developed market economies, the main form of functioning of financial capital is the financial-industrial group. It is a union of banking, industrial and other monopolies based on a system of participation, personal union, long-term financial relations and other ties. Within these groups, a certain coordination of economic activity of the enterprises included in it, redistribution of loan capital accumulated in banks, relative stability of capital accumulation is achieved. Integrated structures are becoming the basis of big business. Characteristic features of these groups were the completeness and integrity of the internal organization, the presence of functional management centers with a focus on both the financial core of the group and industrial and commercial specialization. The basis of the globalization of the modern international economy are transnational corporations (TNCs). It is noted that in modern conditions transnational FIGs occupy one of the key positions in the formation and functioning of international business and are the most active participants in international economic relations and a powerful driving force aimed at integrating national economic systems into the world economic system. The most important reason that motivates the organization of financial-industrial groups is to ensure the relative cheapness of investment resources that are accumulated in financial institutions (banks, funds, insurance companies) of the group. This allows to keep the whole structure active and is an important factor in competition. Financial industrial groups can be restructured in accordance with the requirements of dynamic changes in various markets at lower structural costs compared to other economic associations of similar scale. The innovative advantages of FIGs deserve special attention, especially since the insufficient intensity of innovation processes is a key flaw of Ukraine's economy. The presence of large capital in the economy of Ukraine ensures the strengthening of investment processes.

## ОСОБЛИВОСТІ ФОРМУВАННЯ ФІНАНСОВО-ПРОМИСЛОВИХ ГРУП В СВІТОВІЙ ЕКОНОМІЦІ

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**Ключові слова:**

міжнародна економіка, фінансово-промислові групи, глобалізація, транснаціональні компанії, інвестиції, підприємства, прибутки

Стаття присвячена дослідженню особливостей формуванню фінансово-промислових груп у світі. На сучасному етапі в країнах з розвитою ринковою економікою основною формою функціонування фінансового капіталу є фінансово-промислова група. Вона являє собою об'єднання банківських, промислових і інших монополій на основі системи участі, особистої унії, довгострокових фінансових відносин і інших зв'язків. У рамках цих груп досягається визначена координація економічної діяльності підприємств, що входять до неї, перерозподіл акумульованого в банках позичкового капіталу, відносна стійкість нагромадження капіталу. Інтегровані структури стають основою великого бізнесу. Характерними ознаками цих груп стали завершеність і цілісність внутрішньої організації, наявність функціональних центрів управління з орієнтацією як на фінансове ядро групи, так і на промислово-торговельну спеціалізацію. Основою глобалізації сучасної міжнародної економіки є транснаціональні корпорації (ТНК). Зазначено, що в сучасних умовах транснаціональні ФПГ займають одну із ключових позицій

у формуванні та функціонуванні міжнародного бізнесу і є найбільш активними учасниками міжнародних економічних відносин і потужною рушійною силою, спрямованою на інтеграцію національних економічних систем окремих країн у світову економічну систему. Найважливішою причиною, котра спонукає до організації фінансово-промислових груп, є забезпечення відносної дешевизни інвестиційних ресурсів, що акумулюються у фінансових установах (банках, фондах, страхових компаніях) групи. Це дозволяє підтримувати всю структуру в активному стані і є немаловажним чинником у конкурентній боротьбі. Фінансове промислове групи можуть переструктуризуватися відповідно до вимог динамічних змін на різноманітних ринках при менших структурних витратах у порівнянні з іншими економічними об'єднаннями подібного масштабу. Особливої уваги заслуговують інноваційні достоїнства ФПГ тим більше, що недостатня інтенсивність інноваційних процесів — ключова вада економіки України. Присутність великого капіталу в економіці України забезпечує посилення інвестиційних процесів.

### Formulation of the problem

The formation of financial-industrial groups is a natural process of emergence and development of large capital. This process should not be seen as a deformation of the economic development of society. Financial-industrial groups (FIGs) are becoming the carriers of innovative development. In modern conditions, the development of such groups is becoming one of the main directions of development of the world economy. Enterprises that are part of FIGs are interconnected by numerous ties regarding financial, production, sales and other activities. The holding mechanism of the group organization is dominant in the creation and operation of many foreign FIGs both at the national and transnational levels. Quite often the holding acts as a company that owns a controlling stake in the group and thus determines its strategy. World experience also shows that overcoming the investment crisis is possible only with the concentration of capital – through both the merger of banks and the creation of associations of banks and industrial enterprises. Recently, the motivation of enterprises to join FIGs has been growing. Such intentions are related to the ability to ensure control over enterprises in order to establish favorable technological and economic ties. Many economic entities are attracted by the prospect of joint implementation of priority national programs, obtaining the necessary state support, development of long-term and promising investment projects. FIGs, which cover industrial enterprises, research organizations, trading companies, banks and other structures based on internal contractual relations, have become a kind of framework for a market economy in many countries. The presence of large capital in the economy of Ukraine ensures the strengthening of investment processes. Large FIGs are becoming carriers of innovative development. Thus, the study of the process of formation of FIGs will contribute to the penetration into the Ukrainian business environment of Western business models.

### Analysis of recent research and publications

Today, the interest of scientists is attracted to the study and systematization of the processes of concentration, centralization of production. A.H Movsesian and S.B. Ognivtsev studied the influence of FIGs on investment processes and their relationship. Researchers emphasize the transfer of part of the reproduction processes from one

country to another (others) through foreign direct investment. The process of transnationalization, which underlies investment, is studied in detail [1]. O.I. Rohach highlights that transnationalization is a process of strengthening global integration as a result of global operations of transnational companies [2]. Kutsyk P.O., Kovtun O.I., Bashnianyn G.I. [3] do not ignore scientific works of Vasilevskyi T.L., Nalevieva M.A. [4], Temnichenko M. Yu. [5], Lenskyi E.V., Tsvetkov V.A. [6], whose research is devoted to the formation of principles and development and formation of FIGs, multinational companies.

### Formulation of the purposes of the article

The purpose of the article is to study the features of the formation of financial-industrial groups in the world economy.

### Presentation of the main research material

The most important reason that motivates the organization of financial-industrial groups is to ensure the relative cheapness and effectiveness of investment resources accumulated in financial institutions (banks, funds, insurance companies) of the group. This allows keeping the whole structure active and is an important factor in competition. Financial-industrial groups can be restructured according to the requirements of dynamic changes in various markets at lower structural costs compared to other economic associations of similar scale.

There are many tools for integrating enterprises into FIGs. The main mechanisms of capital consolidation include the following: holding form of management of the group's share capital; trust management of the parent company shares of group members; mutual ownership of shares of FIG participants; long-term financial relations; joint opening of a joint-stock company (parent company; trading house, etc.) [7].

In general, the creation of industrial and financial groups is an attempt to form a relatively small number of large stable and competitive alliances to catalyze diversified investment flows in the priority areas of industrial and economic growth.

FIGs are characterized by special properties of the internal movement of cash flows and assets, their cash flows, on the one hand, take the form of transfer prices for raw materials and products, the purpose of which is to redistribute funds among group members and generate profits where taxes are

minimized. On the other hand, the movement of cash flows in conjunction with barter is subject to the objectives of commodity lending. Complementing them with bank loans of their own financial institutions, FIGs provide themselves with increased financial stability in the place where it is currently most needed. As for the movement of assets, the transfer from one member of the group to another can significantly reduce the risk of losing the FIG of the required assets when imposing a penalty on them. The movement of cash flows and assets is often accompanied by the creation and elimination in groups of individual units to improve the system of accounts (production units, this is practically not the case) [8].

The special nature of cash flows allows influencing the financial condition of members of FIGs, first of all – producers. The safest, from the point of view of the owner, is the financing of the latter at the expense of borrowed funds of other members of the group, which creates opportunities for unlimited control over economic activities. In this case, the capital structure, liquidity and solvency are considered by the owner not in relation to individual production, but in relation to the business as a whole.

It is legitimate to emphasize that the internal relations in FIGs give them a very high stability due to low transactions – profit centers are moved by a simple change of contracts, the introduction of new firms in the scheme of calculations, documentary changes in income.

Thus, modern FIGs have succeeded to solve two key tasks for entrepreneurs: they have effective mechanisms for both profit maximization and cost minimization, and protection against bankruptcy. In addition, they managed to create a completely opaque picture of their activities, closed from external counterparties and fiscal authorities.

The experience of relations within the framework of Japanese inter-corporate alliances operating in dynamically developing industries is interesting, in which the stability of the situation is ensured for all members of the group. Suppliers cite long-term reliable relationships as a key reason for integration even more often (74.5%) than parent companies (46.5%). This is one of the modern forms of functioning.

In the Japanese automotive industry, the electrical industry a contract for the supply of specific parts for a particular product model is usually concluded with a single supplier and usually operates throughout the life cycle of the model. This does not preclude the presence of their suppliers of similar parts for different models. The absence of parallel contracts indicates that the parent company's relationship with its suppliers is not dominated by pressure on them, but by the desire to use the effect of scale of production. To counteract the overpricing of components, other levers are used: the terms of loans, other resources, participation in the capital of suppliers.

Preference is given not to short-term benefits from the forceful reduction of prices for their products, but to long-term cooperation. It is manifested when specifying prices, adjusted for risk, and incentives for innovation. In the automotive industry, as a rule, the smaller the supplier, the greater the risk assumed by the parent company. Naturally, it performs insurance functions for a fee. The design of new components is carried out in parallel with the relevant efforts of the parent company. This reduces the time to develop a new model. Gain in the pace is achieved by reducing the

interval between the beginning of product design and the starting of the development of technology for its production, which is typical of Japanese industry. The long-term nature of intragroup relations leads to deep technical cooperation: the customer often rents equipment to performers, provides scientific and technical information, engineers of suppliers are included in the laboratory of the parent company.

Thus, the source of strategic benefits for all FIG participants is the competitive advantages provided by integration in the field of technological development. Combining the resources of individual firms is increasingly a necessary tool for developing or acquiring new technology, implementing the accumulated knowledge and experience, organizing new industries or overcoming barriers to entry into existing ones, the familiarization of foreign markets.

From the point of view of technological development the interdependence of well-being of the grouped enterprises is well visible. When all members of the financial-industrial group accumulate managerial skills, specific technological resources, and technical competence in the conditions of scientific and technological progress, the long-term viability of each FIG company is very important for the efficiency of the group as a whole. Human capital and technological knowledge accumulated in family firms cannot be discarded and restored in a short time by the parent firm. Confirmation of the growth of the economic weight of the «junior partners» in FIGs can be the manufacturing industry of Japan, where the share capital of subsidiaries in the mid-60's of the last century amounted to 11% of the capital of the main, reached – already 35% in the 90's.

The innovative advantages of FIGs deserve special attention, especially since the insufficient intensity of innovation processes. The circumstances constraining the innovation process include: 1) the complexity of interaction with related industries; 2) uncertainty of demand and results in general; 3) problems with funding, largely related to the above factors. The impact of these circumstances is exacerbated when new production is characterized by increasing scale efficiency.

Although Japan does not have such a venture capital market as the United States, it has a non-trivial alternative that provides the economy with a high degree of innovative dynamism. Takeovers of firms are not accepted in Japanese practice. If in the United States venture firms are given the role of pioneers of new technologies, in Japan the burden of the initial development of technology is borne by a large corporation. Another situation is more typical for Japan: small and medium-sized firms play a significant role as a channel for testing various options for the application of technological innovations mastered by large corporations. At the same time, typical cases when small entrepreneurs make certain technological improvements.

An innovative FIG firm receives diverse support from other members of the group. This helps it to overcome some of the initial difficulties of entering the market.

Firstly, many innovative products and processes are the result of long series of adjustments based on the results of different stages of the innovation process, in which different FIG participants are involved. Consumers of the equipment often express wishes that push to innovations of manufacturers of this equipment.

Even in vertically integrated Japanese FIGs, the relationship between the participants goes beyond the hierarchical division between planning and implementation of plans. Coordination is practiced based on prompt access to a posteriori information, i. e. obtained from practical experience. This kind of information about the reaction of consumers to new products, design problems, the complexity of the production process becomes the property of all members of the group involved in the innovation process.

Through interaction between them, a coordinated adaptation to new information is ensured. Due to this adjustment, the quality of new products and technologies is improved, innovation risk is reduced. In innovative competition, it is often not the inventor who wins, but the one who can embody more quickly the invention in products, give it a perfect design, and understand consumer demands.

Operative coordination of actions among all participants in the innovation process requires appropriate costs. However, they decrease with the development of information technology.

Secondly, FIGs share the strengths of networked industrial organizations in terms of access not only to information but also to other technological resources.

As is known, the key circumstance of the network model of economic integration is the actual closure of broad segments of industrial markets. When the German concern BMW lost to its compatriot Volkswagen in the competition for ownership of Rolls-Royce Motors, the concern decided to reduce the supply of components for Rolls-Royce. The new owners will need a lot of time and huge investments to ensure the production of engines comparable in quality to BMW products [9]. There is no open market for many products and technologies. This is the situation with dual-use technologies, including missiles, nuclear, etc. There is exclusive access to resources.

Thirdly, financial-industrial groups are able to provide a relatively massive and stable demand for new products in the critical period of its development, when reducing costs to an acceptable level depends primarily on the volume of production and sales of these products.

For example, in the late 1960s, about half of the computers used by leading Japanese FIGs were made by a member firm. At that time, Japanese computers were inferior in quality to imported ones. Today, most of the computers used by Sumitomo Group companies are made by NES Holding.

Fourthly, FIG facilitates the financing of innovations. Here is one of the most important advantages of FIGs.

The achievements of FIGs are largely due to the widespread use of borrowed funds to finance industrial members of these groups. The rapid postwar development of Japan and Germany took place with a relatively high share of borrowed funds in the capital structure of nonfinancial corporations. FIGs are the most important mechanism for reducing the equity ratio (shareholder equity / total funds ratio) in these countries.

In our opinion, in the framework of economic security, FIGs provide solutions to the following tasks: concentration of bank capital and expansion of the investment base on market priority areas of industrial development; structural restructuring of the entire system of banks with a focus on the real economy; survival in competition and creation of conditions for sustainable development of banks and

enterprises; the possibility of implementing integration tasks within the CIS on market terms; increasing the manageability of the economy, creating new jobs; strengthening the position of national capital in foreign and domestic markets; accelerating the modernization of industry.

It should be noted that world economic development indicates a transition to oligopolistic competition. In all world economic centers, development is dictated by a limited number of FIGs and TNCs. Thus, in the United States they account for up to 60% of consumer goods, in Japan up to 45%. Large corporations provide scientific and technological progress, economic growth, and social security of citizens. It was the transnational FIGs that built the European Union in the shortest possible time, gave a powerful impetus to the development of the newly industrialized countries of Southeast Asia, and so on. Their importance in the development of the global world economy has been growing systematically over the past 50 years [9].

From the point of view of external security, it is also obvious that the ability to contact the environment (world economy) without violating its homeostasis is provided by the forces and means of adequate institutions. The main ones are transnational FIGs – this is due to the fact that: FIGs – a fairly rational form of economic integration. The economy is integrated not only by agreements (borders, fees, etc.), but by real economic entities. FIG is one of the main conditions for the inflow of foreign direct investment, because of the need to be in the recipient country of powerful companies capable of implementing investment projects and shaping the environment. FIG formation is an effective way to prevent unwanted takeovers of strategic industries by foreign companies.

It should be noted that for transnational companies (TNCs) foreign activity is no less, but increasingly more important. Specific reasons for the emergence of TNCs may be the existence of restrictions on the development of international trade; strong monopoly power of producers; currency control; transportation costs; differences in tax legislation.

TNCs, as a form of international business, have a number of undeniable advantages over national companies. Their foreign affiliates play an extremely important role in ensuring the firm's access to foreign markets, reducing production costs, and increasing profits. Expansion of the sphere of circulation and production at the expense of foreign branches and increase of their efficiency promotes strengthening of financial stability of TNCs and helps them to survive the periods of economic crises.

The advantages of TNCs in obtaining much higher profits compared to other forms of international business organization are also the reasons for the active development of corporations. Transnational FIGs can be created both on the basis of intergovernmental agreements and by concluding agreements directly between economic entities of various forms of ownership in accordance with national legislation. If a transnational FIG is established on the basis of an intergovernmental agreement, it is granted the status of an intergovernmental FIG. For participants in interstate FIGs, the national regime is determined by intergovernmental agreements on the basis of reciprocity.

The Convention on Transnational FIGs (Transnational Corporations) establishes the principles of cooperation

between the States Parties to this Convention (hereinafter referred to as the Parties) in the field of establishment and operation of transnational corporations. In the Convention, the concept of «transnational corporation» includes various transnational entities, including financial and industrial groups, companies, concerns, holdings, joint ventures, joint stock companies with foreign participation and others [10].

According to the UN, there are about 200,000 TNCs in the world, which own more than 250,000 branches abroad. Under the direct control of TNCs with varying degrees of integration are the vast majority of all production assets in the world and 80% of new technologies.

International transnational economic powers have a high degree of concentration. This is evidenced by the fact that 1% of parent TNCs own 50% of total foreign direct investment (total assets of foreign affiliates).

The decisive influence of TNCs on world development is manifested through the system of their international scientific and technical relations, the most characteristic of which are: foreign technological trade, including trade in machinery, equipment, patents, licenses, know-how, etc.; export of capital for the purpose of implementation of large scientific and technical projects, investments in science-intensive industries (electronics, computer science, biotechnology, new materials, etc.), construction of enterprises and other facilities, exploration works; military sphere, including joint research and arms trade; international engineering; international leasing; training of scientific and technical personnel abroad; control over the international market of information services; direct participation in the development of international agreements on standardization and other areas that ensure the coherence of the actions of TNCs on the world stage; scientific and technical relations in the framework of bilateral and multilateral agreements of TNCs, including their strategic alliances.

The main volume of foreign direct investment and, accordingly, production and other activities of TNCs are concentrated within the «triad»: the European Union (EU) –

the USA – Japan, due to the specifics of the current stage of the scientific and technological revolution and, therefore, structural restructuring of national economies. This is evidenced by the location of foreign branches of TNCs: 45% are located in industrialized countries, 41% – in developing countries, 13% – in Eastern Europe. TNCs occupy the highest floors of the economic structure. Thus, 60% of American and Japanese TNCs operate in the manufacturing industry, 37% – in the service sector and only 3% – in the primary sector (mining).

The restraining circumstances of the formation of FIGs in Ukraine as a driving force include: the complexity of interaction with related industries; uncertainty of demand and results in general; funding problems are largely related to the above factors. The influence of these circumstances is amplified when new production is characterized by increasing scale efficiency [11].

### Conclusions

The conducted researches allowed reaching the following conclusions: preconditions of formation and activity of financial-industrial groups are socialization, concentration and centralization of production. The socialization of production must be seen as the socialization of the entire reproductive economic process as a whole. Moreover, we understand it as a dual process of development of productive forces and economic relations, i. e. in organizational, technical and socio-economic aspects. Thus in the very process of socialization it is expedient to distinguish two dialectically interdependent and closely interacting, but at the same time existing relatively separately, directions: organizational-economic and socio-economic, which have the corresponding mechanism of realization. This mechanism, in our opinion, includes three blocks: functional forms of socialization (concentration and centralization, specialization and cooperation, combination and integration, etc.), its structural forms (subjects and levels), and objects socialization.

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