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Integrated Corporate Structures in the World Crisis Conditions

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ABSTRACT

The main factors determining the current stage of globalization of world economy are analysed. It is proved that globalization in the near future will determine the trends of the global economic system. Under the influence of globalization processes, enterprises' strategies are changing in the direction of expansion of branches and subsidiaries in regional or global scale. It is proved that the globalization of markets leads to global competition. It was found that the effects of globalization are ambiguous as to their impact on competition. On the one hand, there is a tendency to monopolization of the world's transnational corporations, while the other – intensifying competition in national markets, where international companies weaken the power of local monopoly entities. For the purpose to research the concept of "globalization" it was revealed its inherent features. First, globalization is manifests itself in the integration processes that take place between certain countries which has as a result deepening interdependence of the economies of the world. Second, the special feature of globalization processes is its uneven progress between different countries. That is, despite the fact that countries may be geographically located near the degree of their participation in globalization processes may be different, due to a number of subjective and objective factors. Thirdly, the development of globalization processes has a strong connection with the development and implementation of innovative technologies in all spheres of economic life. Fourth, globalization processes are prior to liberalization processes in the country that facilitate raise their level of openness.

1. INTRODUCTION

The transformation of economic relations is largely related to the increasing role of corporate structures in the economy. World experience shows that corporate form of business organization is destined to become a source of institutional changes in the economy of Ukraine. This concerns the fact that the internal form of corporate relations is able to provide the development of modern production, form and grow the potential of enterprise, promote the achievement of competitive market advantages on the one hand and provide the sufficient level of economic interests' compromise on the other. Corporate form of business organization in the condition of increasing activities offers wide range of opportunities for modeling more

complex relations between companies by forming corporate structures. The increase of the role of corporate sector in the economy and the economic growth has become a determinant factor of high competitiveness level of developed countries. The processes of corporate formation reflect the patterns of development of the world economy. Such as: concentration and centralization of capital, integration of industrial and bank capital, diversification of forms and activities, globalization, etc. [1].

2. THEORY AND METHODOLOGY

Despite the significant developments in the field of studying peculiarities of corporations' formation and functioning, interrelations between the members of

corporate relations, the economic literature has no general terminology concerning nature and content of such formations, which requires further study of mechanisms of corporate structures' creation and functioning.

Creation of integrated corporate structures increases the relevance of studying institutional foundations as well as their economic nature, abrupt development of these formations in the Central and South Europe countries during the past two decades. Thus there is a need of theoretical grounding of the integrated corporate structures' development in the economic system. Such integrations constitute the basis and form the skeleton of the economy. According to L. Fedulova, corporate sector is reasonably considered to be the foundation of the modern economy. It is large corporations and their integrations that provide technological progress, economic growth and Social Protection of developed countries [2].

Global economic suggest that large and extra large corporations that possess industrial, scientific and technical resources become the most effective and competitive in the global market. In this regard Swiss economist H. Bortis claims that even cartels can positively influence the economy, as they help to form stable environment for maintaining business activity in the long-term perspective [3].

It is indicative that even J. Keynes pointed out that corporations that increase magnitude of their activities gain characteristics and status more of public institutions than of private enterprises. Scientist believed that big corporate enterprises that were more guided by maintenance of stability and reputation (instead of trying to maximize auctioneers' profits) objectively tend to socialization. According to Keynes this transformation is natural. Moreover there must be a limit ("ideal level") of state control that should be inside the coordinates of relations between individual entities and the state [4]. It is obvious that the development of global competition has led to the enlargement of companies and the transition to global monopolies in the form of financial-industrial groups as the most effective form of business organization according to the terms of concentration and distribution of capital [5].

The peculiarities of building corporate structures can be primarily analyzed on the basis of the American experience of the 20th century. A. Chandler distinguished four main phases of organization structures' transformation based on the extensive study of large and successful firms. In particular, the first phase concerns the creation of broad capital combinations, that are mainly combined by financial and proprietary relations. As a result structures like cartels, trusts and holdings (H-forms) are formed. As the sizes of such organizations grow they are being absorbed, because they are unable to allocate their

resources effectively, reduce costs and make investments. However, eventually the growth of H-form structures changes their coordination for the worse.

The second phase concerns the consolidation of the company's capital management. The result is a complete or partial allocation of previously established combinations of assets with simultaneous strengthening of the most economically powerful ones. The strategy of vertical integration becomes dominant. At this stage the attention is paid to the effective use of company's resources and a new functional organization structure is being formed (the U-form). This organizational innovation is aimed at achieving comprehensive savings on procurement, sales and production. U and H-forms organization structures were dominating during the first half of the 20th century in the companies of developed countries.

The third phase concerns company's business diversification. Complication of the administrative apparatus promotes information flow increase and reduces management efficiency. Firms try to solve these problems, by increasing the number of corporate hierarchy levels. This situation was in Europe in the 60-70s of the 20th century. The concentration of production in the industries has dramatically increased after the wave of mergers and acquisitions. As the result corporations with U and H-form organization structure have suffered the decrease of capital profitability. These losses reversed the growth of production efficiency through the vertical integration. The important cause of falling profitability was that management increased costs for their own consumption in the conditions of weakened control. In particular, 500 top "Fortune" magazine companies work in the conditions of corporate management, which allows the Head of the Board to have 400 times bigger salary than the average worker receives (although 20 years ago he received 40 times more). That is why the top management of the large corporations now receives "compensation that does not depend on providing long-term development, but on a quarterly profit in combination with "golden parachutes, even if management is ineffective" [6].

Large firms gradually move to the fourth development phase, when their U-form organization structures appear to be inefficient when using different technologies. At this stage companies are fundamentally reorganized and multidivisional organization structures (the M-form) are implemented. The essence of the M-form is that production units have greater autonomy in making operational decisions and the controlling company has more authority in managing the capital (strategic decisions). As a result we have organizational separation of operational and strategic management centers. This way an intra-corporate competition is stimulated. Thus M-form organization structures are more flexible than the U-form ones [7].

In recent years much attention is being paid to the latest forms of centralization and concentration processes, concerning the actual decline of the hierarchical vertical transnational corporations (TNCs) and establishment of so-called horizontal transnational corporations. Under the conditions of the rapidly growing information flows classical centralized corporation loses its ability to the adequate accumulation and handling the necessary information resources. Under such conditions grows the trend of economic delegation of authority to SMEs (small and medium enterprises). Functionally updated horizontal corporations, which combine the principles of centralization, decentralization and network systems, appear on this basis.

Researchers draw conclusions that the transnational corporations with horizontal network types of organization and management are the main subjects of the global economy synergetic model. This means that modern corporation becomes an information network – a kind of “an electronic nervous system”, which is the expression of the global economy basic renewal principles [8].

Big corporations (including transnational) often form consortia and alliances in order to develop new technologies and expand the presence on the competitive markets. Under such conditions the business can grow due to the partnerships, which becomes a factor of survival in competition [9]. According to Russian researcher V. Zuiiev modern companies are “non-national” in their strategic decisions concerning the allocation of production, depositing savings, using profits etc. In the global strategy they consider the interests of the country they base in. However, they give absolute priority to preserving and enhancing the capital. Tracking the dynamics of capital export allows concluding a clear correlation of this index with economic and political stability inside the country [10].

3. RESULTS AND DISCUSSION

The formation of a few powerful financial-industrial groups in Ukraine can be considered an adequate form of transformation of Ukrainian economy. We should agree with the idea that in present conditions the most profitable form of maximizing domestic FPG profit is the appropriation of rents by establishing control over trade and financial flows by using three methods. However, analysis shows that the national capital is still not powerful enough to form Ukrainian transnational corporations based on the national economic complex [11].

There is also a perception that particular Ukrainian financial-industrial groups have approached the status of the transnational corporations (primarily it refers the “SCM”) [12].

In the countries with widely represented transnational businesses noticeable contradictions and conflicts are generated between the state and corporations. This situation corresponds to the conceptual implications of the conflict between state and business, which is expressed in the disequilibrium between them. This type of the conflict is not yet dominant in Ukraine, taking into account that the transnationalization of the Ukrainian economy has not yet reached significant volumes, that's why we can keep in mind the effects of country's interaction with the part of the economy, which is represented by transnational structures [13].

The important trend is also a transition of the most powerful international companies to the strategies of global expansion, intensification and complication of their interrelations. This group of corporations forms its single branched manufacturing complex, requiring tight coordination, rationalization of resource allocation between different links of the production, implementation of the coordinated investment policy, etc. Such conditions provide manageability and control of market processes and the formation of the main global market parameters by the global corporations. Diversification of the competition forms and methods in the market establishes new conditions of business activities, in which the maintenance of competitive positions becomes possible when maximizing mobilization of internal development potential [14].

The crisis which began from the small part of the financial system in 2007 has led to the global economic crisis in 2008-2009. The links of the global financial system are more interconnected than scientists believed before the world economic crisis, and the perception of excessive risk can have negative consequences for the world economy in the future. Present understanding of the systemic risk nature can help economists develop policies to prevent these types of risks [15].

Financial crisis of 2008-2009 is ahead of most of the preceding, whose epicenter was in developing countries. Features of this crisis as well as its cause and effect relations require a systematic methodological analysis. First, the current stage of economic development is characterized by a situation in which the level of integration to a single global space is quite large, causing significant interdependence. Second, the most powerful economy the world has become a country with which the crisis began, that causes additional "crisis lever" associated with the scale of the crisis-ridden economy. Thirdly, the current level of information and financial technology enables instant transfer of information and transfer of money to accounts anywhere in the world, which sharpens macroeconomic imbalances in the countries with weak financial sectors and causes additional volatility in

world markets. The financial crisis of 2007-2009 has demonstrated that the policy model based on the principles of new consensus in macroeconomics, which has been used over the last decade, is no longer effective [16].

Financial liberalization, accompanied by excessive credit expansion, is the main precondition for financial crisis. Significant part of credits is used for the purchase of securities and real estate, with prices exceeding their fundamental level. Credit expansion continues until the income from the ownership of these assets becomes impossible to get in the future. Central bank may also inhibit this expansion in order to prevent "overheating" and inflation. The sharp fall in the property prices and securities arises as a result of the credit activities inhibition. The global economic recession in the years of 2007-2009 is largely different from the post-war recession. Understanding of the economic crisis and depression is an extremely difficult task. It is natural, that under such conditions there is a number of options in explanation of the crisis. However, many questions are still unanswered [17].

Vincent Reinhart, who has been The Head of Monetary Affairs of the U.S. Federal Reserve and an economist of the Federal Open Market Committee in 2001-2007, notes that the Government's arguments concerning the implementation of intervention in the economic system at the stage of the financial crisis was caused by the fact that financial institutions are too large, and too interconnected. The author also notes that government intervention will help to avoid financial crisis and win some time for a gradual solution [18].

The analytical summary, prepared by the IMF experts, states that the legislative organs all over the world are now facing the extraordinary difficulty task - to stabilize the financial system, while supporting the economy of their countries during the period of the GDP growth slowdown and holding back inflation. The performance of this complex task will require comprehensive measures focused on solving systemic problems, such as: settlement of unreliable assets, the renewal of bank capital and normalization of liquidity on financial markets. Thus it is necessary to take into account the need for coordination of national strategies at the international level in order to solve common problems and prevent the negative trans-boundary effects.

The priorities for countries in transition, including Ukraine, significantly differ from the tasks the developed countries are facing, as the authorities try to balance efforts to ensure GDP growth and inflation risks. Fiscal policy can play a supporting role in macroeconomic management. According to IMF experts, a significant expenditure restraint would help reduce the pressure of inflation in a number of countries. This is very important for countries that have

current account deficit. As stated in the October edition of the report on global financial stability in 2008, one of the main goals is to provide a more efficient and reliable risk management, including by establishing more effective norms regarding capital adequacy requirements and more secure practice or liquidity management and full disclosure of risks in financial transactions [19].

It should be noted that since the early 2000s and until the global financial crisis, the countries of Central and Eastern Europe has been among the number of the most dynamically evolving regions. Most countries of this region has improved the structure and the efficiency of the economy, increased the household income, and significantly reduced unemployment. Global crisis has revealed significant structural flaws in their economy. Narrowing of the export opportunities and falling domestic demand prompted companies to reduce output. In general, regional GDP for 2009 declined by 4 percent. For example, in 2009 from Slovenia and Slovakia transnational's pulled out more capital than invested. Some of them were closed. In particular, one of the Slovakian Auto Parts manufacturers "Molex Slovakia" left the market after ten years of work [20].

The analysis showed that corporate structures must be constantly evolving and improving according to the variable environment. Transformation and development of corporate structures, revealing their relevance, benefits as the main subject of the market, determining their role in the development of economy of certain regions and the national economy in general, still need a thorough understanding. Constant evolutionary trends of corporate structures transformation as in modern developed market and in transition economies, through consolidation of the equity in large corporations is a natural phenomenon. Objective basis for this are complex technological chains of production, caused by the deepening of labor division and globalization of the world economy, which requires the implementation not only standard functions of production, but also research and development and marketing on the microeconomic level in the relevant field.

The growing role of corporate link in the economic system and economic growth is a major factor in the high level of competitiveness of developed countries. Large corporations create real prerequisites for dynamic development of national economy. Trends in the corporation formation and operation reflect the patterns of the world economy. First of all these patterns include: concentration of capital, integration of industrial and financial capital, diversification of forms and activities, increasing global competition etc [21].

Recently, researchers pay attention to the increasing tendency of forming horizontal network corporations. Under these conditions the classical

centralized corporation gradually loses its ability to properly accumulate and process the necessary information resources and respond quickly to them. We identified a new trend of delegating authority and responsibility from the center not only to subordinate economic structures, but also to thousands of independent entities. These functionally updated horizontal corporations become members of the global economy.

Such polysystemic corporations become entities of a new logic of global economic development, which is confirmed on the basis of operation network systems. Researchers consider the Japanese and South Korean corporate structures, as well as leading Western banking groups as the examples of this type of corporations.

Typical characteristic features of building such corporations are:

- a). The combination of factors and tasks of economic and social development.
- b). Horizontal organization of management and equality of the network members.
- c). The absence of formal foundations of network structures, as their entities interact in basis of unofficial norms.
- d). Organization of their relations on the basis of convergence.
- e). The formation of social capital that starts to occupy a leading place in ensuring the development of both economy and society as a whole on the basis of such networks [22].

The corporate way of forming the economy allowed concentrating large capital in the hands of small number entities. Thus large organizational structures have a significant pressure on businesses that own medium and small capitals, often discouraging their development.

According to researchers, in order to resolve this contradiction the principle of corporatism should be accepted at all the levels of economic activity, i.e. bringing it to the meta-system level by categories and the transformation of geo-economic space should be considered from the perspective of corporate imperative opportunities. It is also necessary to form special institutional environment of economic activity, which promotes a compromise between the interests of all the subjects of corporate relations. Changing economic model within the corporation involves a change of ownership relations towards the dominance of corporate ownership [23].

World experience shows that reorganization and merging companies into large financial-industrial corporations significantly reduces transaction costs and costs of competition. This aspect has its importance in the integration process of Ukraine, which led to a number of corporations that diversified their activities

within their structure [24]. It obvious that creating Ukrainian corporate structures on the basis of international standards should help counteract the negative trends in the Ukrainian economy and save its competitiveness. Without state support for the establishment of large national integrated structures that can efficiently operate under increased international competition there is a threat of transformation of enterprises into manufacturing facilities of the international alliances which will negatively affect the economic development of the whole country.

Transnational corporation is a specific form of integrated corporate structures. It can be defined as a spatially and technologically integrated production-territorial system that develops on the basis of innovative enterprises [12].

Scientists try to figure out what factors affect the accelerated development of transnational corporations. In this context such fundamental factors should be highlighted:

- a) Significant acceleration of global trade and investment under the influence of the goods, services and capital movement liberalization.
- b) The appearance of new opportunities for effective management on a global scale, which is associated with the use of rapidly spreading information technologies.
- c) Changes in the emphasis on industrial policy that is aimed at creating a developed institutional environment, modern infrastructure and deregulation of industry markets.
- d) Growing intensity in the global environment causes the search of ways to strengthen the competitive position through international mergers and acquisitions, the transition to corporate strategies focused on global market [1].

In general, the transnational sector is a key element of present stage of the world economy development, which has reached an enormous impact. Financial and investment resources of the world TNCs exceed the volume of GDP of most countries.

This includes not only the scaling up operations of the TNCs based in different countries, but largely the expanding and deepening impact of their activities on economic, political, social aspects of life of involved countries. At the same time transnational corporations become more detached from the countries they base their activities on, they become more "global" than they are "national".

The following Table 1 shows the data on the extent of global transnational corporations. It should be noted that the sales of foreign affiliates of transnational corporations reached 32,960 billion in 2010, and the value of their total assets reached 56998 billion in the same year.

Table 1. Performance indicators of the world TNCs during the 2001-2010.

Performance indicators	Value amount in current prices (billion USD)				Average annual growth rate, (%)		
	2005-2007 (average value)	2008	2009	2010	2001-2005	2009	2010
Sales of foreign affiliates	21,293	33,300	30,213	32,960	14.9	-9.3	9.1
Exports of foreign affiliates	5,003	6,599	5,262	6,239	14.7	-20.3	18.6
Exports of goods and services	15,008	19,794	15,783	18,713	14.7	-20.3	18.6
GDP of foreign affiliations	3,570	6,216	6,129	6,636	10.9	-1.4	8.3
World GDP (in current prices)	50,338	61,147	57,920	62,909	9.9	-5.3	8.6
Total assets of foreign affiliations	43,324	64,423	53,601	56,998	15.5	-16.8	6.3
Gross capital formation	11,208	13,999	12,735	13,940	10.7	-9.0	9.5
Number of foreign affiliations employees (thousand)	55,001	64,484	66,688	68,218	4.1	3.4	2.3

Source: UNCTAD. *World Investment Report 2011: Non-Equity models of International Production and Development*. – New York and Geneva: United Nation, 2011. – P.24

4. CONCLUSION

This shows the fundamental change in social and economic foundations of world order, as the world economy is moving from competition market to oligopoly one, where economic relations establish on the basis of monopolization and distribution between powerful transnational and national corporations with the informal presence of the state.

The result is:

- a). A formation and development of big international authorized structures.
- b). The indirect influence of corporations on social and economic development.
- c). The TNCs get a clear but not sufficient political power over the national economy and the international community as a whole, which is reflected in the system of political and economic governance at both national and international levels.

Thus corporate structures have a wide range of possibilities to attract financial resources, implement innovative projects etc.

The restructuring and reorganizational processes cover a wide range of institutional transformations of the corporate sector of a modern economy.

However they are not stabilized yet in Ukraine. Mostly this is related to institutional restrictions concerning the formation of corporate structures in the country and, above all, with the imperfection of legislative control.

Based on this, the important aspect of further research is a deep, thorough and comprehensive analysis of the role and impact of corporate structures on the national economy.

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