

LARGE-SCALE BUSINESS RISK AND PROFITABILITY MANAGEMENT WITH BANKING INSTITUTIONS INVOLVEMENT

Financial and industrial capital merging modern conceptual approaches are investigated in the article. It is suggested scientifically based proposals on large-scale business risk and profitability management with banking institutions involvement. The growth of business by combining financial and industrial capital complicates economic management requires centralized control of cash flow and in the use of funds. World experience shows that in such cases, to solve this problem create an internal center cash management. In the financial and industrial systems as such a center should perform banking institution.

Keywords: large-scale business, financial and industrial system, bank institution, investment, profitability, risk, analysis, management.

Problem statement. Large-scale business development modern trends are financial and industrial capitals merger and FIS [1] formation with participation of various industries economic units and financial institutions. These processes are sustained by tangible monetary resource stockpiling that can be rated as the positive phenomenon for innovative projects investments. Innovations' applying is a specific mean to increase enterprises potential for the global competition. Experts note this one is the main way for nowadays crisis overcoming [2, p.10].

Innovative projects implementation deferred costs are related to increasing uncertainty, risks negative impact and economic entities lower returns. Financial institutions can reduce these affects and make business activity more predictable and effective.

Financial institution which is Federal Tax Service (FTS) participant has valid cash flow levers management system for stochastic and entropic internals and externals. However these levers are insufficiently explored and topical for further researches.

Analysis of recent studies and publications. Main feature of the problem which was mentioned above is that it includes few directions of scientific researches:

1. Financial and industrial capital merger and large-scale business formation [1; 2].
2. Business activity risks and risk management [1; 3; 4; 5].
3. Banking economic risks [6; 7; 8; 10].

Monographs and articles enclose these blocks are listed below.

The most of them are focused on bank institutions risk management internal prob-

lems. P. Zhytnyj, V. Zhytnyj [6] suggested operational risks classification and commercial bank operational risk management effective system formation. N. Shmatko [8] describes banks risk assessment approach including not only operational and technological risks, but also externals caused ones – price, inflation, investment withdrawal, and reinvestment. These risks types are common to all economic structures and large-scale businesses.

Singling out the unresolved parts of the overall problem. These researches results did not solve the task of large-scale business risk management with banking institutions involvement.

The aim of the article is to form risk and profitability management mechanism improving conceptual framework and practical recommendations for large-scale business with banking institutions involvement.

Presentation of the main material of the research. Business growth which is based on financial and industrial capital merger complicates economic processes management and requires specific cash flow centralization and control. There is needed to implement special cash management inner center to solve this problem. Banking institution becomes such kind of a center for financial and industrial systems.

Bank is the very link that will not only serve FIS enterprises, but also will offer them a full range of financial services taking into account their interaction to insurance and investment companies.

Stanford University and University of Kyoto professor M. Aoki approves banking



institutions main role to effective control FIS activities and interactions [9, p.193]. So-called company's main bank is the major shareholder and creditor. It organizes economic unit's long-term loans consortium and is strategic actor in each business management control system. Bank receives each company's activities information. It is also allowed to control FTS. Control system is based on FIS integrated accounting policy which provides well-timed regulation for financial resources redistribution enhances funds use efficiency, reduces overall risk. Obtained concentration of cash flows helps to solve risk, cost and liquidity management problems.

Banking system is most involved to international economic market and innovative projects financing. Therefore macroeconomic (international) management and transnational obligations risks transfer in unstable economic and social situation states is very important to FIS-connected banking institutions.

The main component of international economic relations is monetary and credit transactions between business entities. Experts note that international monetary interconnections are

peculiar type of mediators for countries, regions, economic units, banks, institutions and individuals' goods, capital and services flow transferring [10, p.7].

Such interactions are always related to uncertainty and interstate risk. Economic researches draws attention to the fact that macro-economic risks are common to all states and affect to investment projects implementation results equally in every country. Current risks are the most significant for foreign investors who decide to invest to particular country businesses [5, p. 212].

Bank losses threats are related to FIS assets transfer across national borders and foreign countries residents' obligations case. One of the components in total interstate risk is capital transfer risk, which occurs when debtor obligations are denominated in national currency in transfer period from one country to another.

It is necessary to define responsibility centers functions distribution of front office, back office, accounting and bank treasury for effective banking institutions risk and profitability management (scheme is given below (fig. 1)).

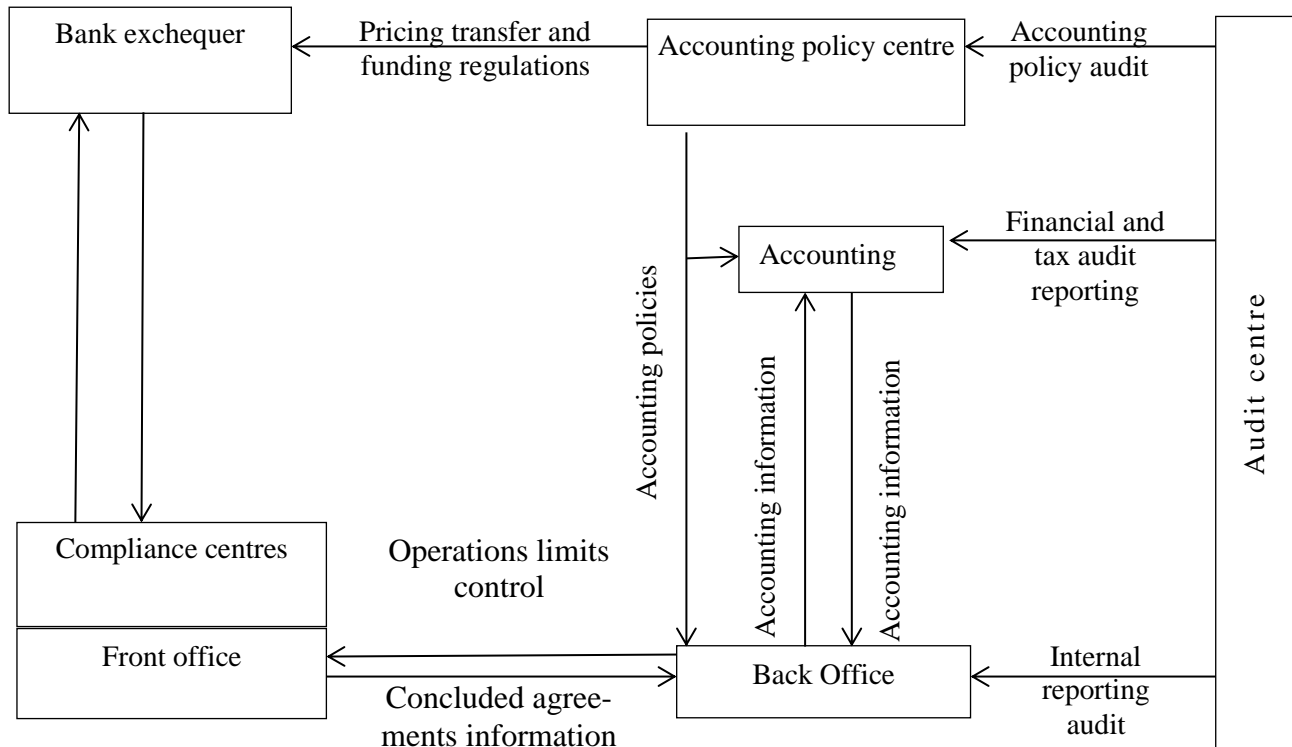


Fig. 1. Bank accounting and control processes organization (for FIS)
Source: authors is designed



Front office concludes banking contracts and agreements. Back office takes estimations and calculation functions, also it controls and operates risk fields, confirms transactions, monitoring aligned limits compliance.

Bank treasury and front office affirm funding agreement. (E.g.: If front office needs monetary funds for current active transaction, it applies treasury. Treasury lends the funds for front office on a fixed term taking into account credit funds agreed percentage. Back office controls operation limits compliance.)

Limitation is certain process of banking transactions restrictions setting. However, risks limits are set on transactions amount and expected financial results also.

Limiting complex transactions include solutions for peculiar prognosis problems:

- bank financial state prognosis based on preset (achieved) indicators of active and passive operations, circumstances, external constraints (legislation, National Bank regulations), management requirements;

- strategic goals achieving based on active and passive banking operations parameters permissible areas determining.

Specific limits indicators value is formed on peculiar business tasks:

- resources allocation volume and its dynamics for the planning period and its minimal amount which is need to be accumulated;

- permitted average values indicators of costs and time;

- permitted average values indicators of profitability and investment.

Back office sends operations confirming information and documents to accounting office. Accounting office compiles financial statements results in accordance to up-to-date legislation and regulatory documents.

Back office organizes and monitors policy of management accounting, reports. It interacts to internal bank departments, external FIS structures and capital market. Accounting office interacts to internal bank departments and state bank regulatory authorities. Financial and management reports formation takes into account risk levels that were defined by bank accounting policy. FIS structures pricing transfer is the top point for effective risk and profitability management in financial and industrial capital mergers conditions.

Pricing transfer is important part of management accounting. It sets prices for different resources (including monetary) and services that are provided by peculiar structural blocks of organization (accounting centers) to other ones in terms of FIS functioning.

FIS terms transfer pricing has two levels. The first one is transfer pricing within each FIS involved structure (e.g., bank). The second level is transfer pricing between FIS structural units (e.g., enterprise – enterprise, enterprise – bank, bank – insurance company).

The approach which is suggested below is the most appropriate for banking institution transfer pricing in FIS conditions.

Responsibility centers bank internal circulation resources' planning is based on strategic plan. Bank treasury makes financial plans that contain assets and liabilities as parts of united banking portfolio in responsibility centers management. Financial plans period must be less than strategic planning one. Active operations funding plans are made to manage interest costs in accordance to financial plans. Assets and liabilities are grouped by funding urgency there.

Responsibility centers costs calculation is made for each funding period. Also support segments are chosen for each funding period based on active operations resource base.

Main monetary capital markets are these ones which are marked as principal credit sources by bank strategy for each term.

Resources transfer prices calculation is made for each funding term by alternative market costs method applying. Transfer price determines center direct marginal costs that are calculated in accordance to bank financial plan.

Bank treasury accrues revenue to profit centers that accumulate resources in external surroundings and transfer expenses to costs centers that place resources to external surroundings in the end of financial plan period. Planned and actual data are taken into calculations.

FIS effective functioning great importance point is transfer pricing between FIS structures.

Fig. 2 presents schematic version of financial and industrial structures interaction chain in FIS conditions.



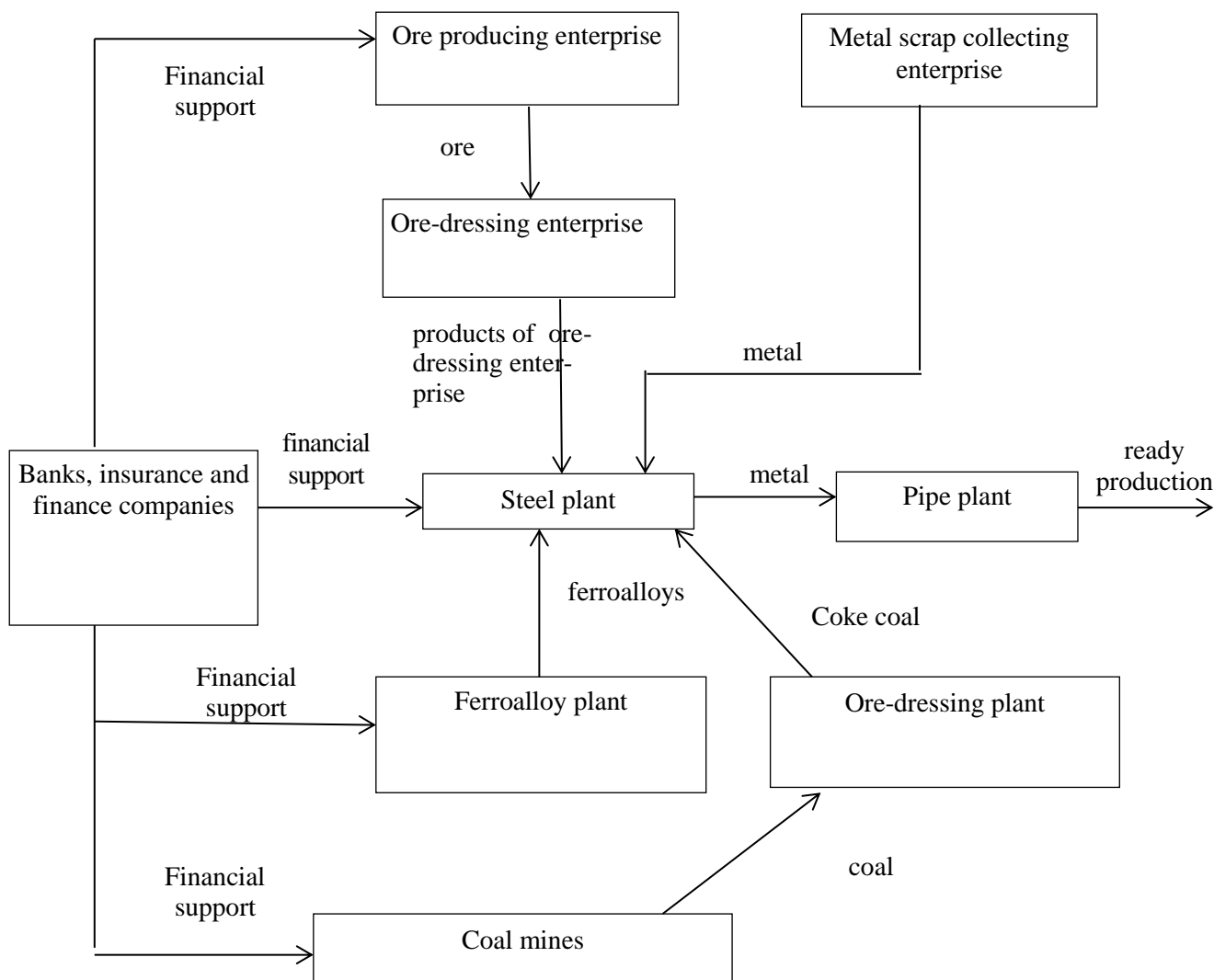


Fig. 2 Management structures interaction in FIS conditions

Source: authors is designed

Transfer pricing formation requires control in each FIS participant structure and management costs.

Costs calculation is based on such basic concepts as costs types and costs centers. Management control is made by responsibility

centers.

Than specific matrix (table 1) is formed for costs analysis. Its rows are responsibility centers, columns are profit-oriented industrial business programs.

Table 1

Costs variants matrix					
Cost centers / resource type	Wage	Consumables	Bank services	etc	Total
Cost center 1	a 11	a 12	a 13	a 1m	
Cost center 2	a 21	a 22	a 23	a 2m	
Cost center 3	a 31	a 32	a 33	a 3m	
Cost center 4	a 41	a 42	a 43	a 4m	
etc	a n1	a n2	a n3	a nm	
Total					

Source: authors is designed



Costs information in the matrix that was given above is summed by rows. Result is responsibility centers costs data. This information describes program cost that is necessary to determine services price and profitability assess.

United codification of cost (profit) centers (each center is FIS structural unit) makes possible to consolidate different businesses total cost. Result optimization has such variants as:

Variant I. Positive results increase at lower costs.

Variant II. Positive results increase at costs maintaining.

Variant III. Positive results increase faster than costs rise.

Variant IV. Positive results are the same, costs are reduced.

Variant V. Results decrease rate is lower than costs.

The variants point that FIS functioning goal is results increasing.

In the best variant each structure is profitable but it is difficult to achieve in practice. E.g.: coal mines, ore-dressing enterprises, separate services (repair, etc.) operate with losses under normal market pricing, steel plants, pipe plants have profit. Transfer pricing should be directed to FIS weak links maintenance and development in this situation. It gives possibility to these structures innovative progress and FIS technological cycles self-sufficing.

Conclusions and prospects for further research. Research results that are revealed in this article disclose financial and industrial capital merger conceptual approaches and banking structures role in risk and profitability management for large-scale businesses conditions. It was determined that banking institutions are main indicators of risk factors there. It manages not only operational and technological risks inherent to the banking sector, but also global risks that are related to large-scale business transnational obligations and all market relations participants. Banking institution is the central link in financial and industrial system, it reallocates financial resources and reduces negative risk factors and increase FIS funds efficiency.

These research results can be used as risk management practical recommendations for large-scale business structures.

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Житний П. Є., Лук'янова О. Ю.

Управління ризиками та прибутковістю великого бізнесу за участю банківських установ

Досліджено сучасні концептуальні підходи щодо злиття фінансового і промислового капіталу. Запропоновано науково обґрунтовані пропозиції з удосконалення механізму управління ризиками та прибутковістю великого бізнесу за участю банківських установ. Зростання бізнесу за рахунок об'єднання фінансового і промислового капіталу ускладнює управління економічними процесами, потребує централізації грошових потоків та контролю в процесі використання коштів. Світовий досвід свідчить про те, що у таких випадках для вирішення цієї проблеми створюють внутрішній центр cash management. В умовах фінансово-промислових систем у ролі такого центру повинна виступати банківська установа.

Ключові слова: великий бізнес, фінансово-промислова система, банківська установа, інвестиція, прибутковість, ризик, аналіз, управління.

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Управление рисками и доходностью крупного бизнеса с участием банковских учреждений

Исследованы современные концептуальные подходы по слиянию финансового и промышленного капитала. Предложены научно обоснованные предложения по совершенствованию механизма управления рисками и доходностью крупного бизнеса с участием банковских учреждений. Рост бизнеса за счет объединения финансового и промышленного капитала усложняет управление экономическими процессами, требует централизации денежных потоков и контроля в процессе использования. Мировой опыт свидетельствует о том, что в таких случаях для решения этой проблемы создают внутренний центр cash management. В условиях финансово-промышленных систем в качестве такого центра должна выступать банковское учреждение.

Ключевые слова: крупный бизнес, финансово-промышленная система, банковское учреждение, инвестиция, доходность, риск, анализ, управление.

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