

# VALENCES AND PERSPECTIVES OF THE GROUP OF ENTITIES WITHIN THE NATIONAL AND INTERNATIONAL ECONOMICO-FINANCIAL CONTEXT

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**Key words:** group of entities, holding, perspective, opportunity, evolution.

**Abstract:** The contemporary entities evolve within a dynamic economico-financial context, taking into consideration the changes generated by the emphasizing of the economic competitiveness, technical-scientific, the informational explosions, the diversification of the consumers' needs, of the new criteria of validation of the quality products and services, the apparition of technical and technological innovations. Within this evaluating context, we cannot observe the fact that the groups of entities, including the industrial-financial groups and the trans-national companies of the XXI century, have become a basic element of the international economy, controlling over half of the industrial production and external global commerce.

At present, the group of entities, viewed under the aspect of its economico-financial valences, represents a reality more and more pregnant, with an implication more accentuated at the economic international level that, sometimes, exceeds that of the individual entities.

**The contemporary entities evolve within a dynamic economico-financial context**, taking into account the changes generated by the emphasizing of the economic competitiveness, technical-scientific, the informational explosions, the diversification of the consumers' needs, of the new criteria of validation of the quality products and services, the apparition of technical and technological innovations.

Considering these transfers, irrespective of dimension or type, the entity is subjected to fluctuations and conjectural influences, that lead to the concentration of efforts towards actions of adjustment and development.

The more increasingly competitiveness, the technological evolution and the perception of the performance as main objective, is instituted in fundamental factors that determine the entities to be in a continuous process of evolution, of growth.

**Maybe we can rely in our process upon the question: WHY GROUP OF ENTITIES AND NOT INDIVIDUAL ENTITY?**

Trying the development, briefly, of this aspect, we can surprise the growth by a complex phenomenon, that can be realized by different modalities and that generate transformations with diverse consequences upon the structure of entities.

Thus, the alternatives of which beneficiates an entity when the growth is one of its strategic priorities are represented either by the acquisition of new corporal and non-corporal immobilizations, process that corresponds to the **internal growth**, either by taking over the control upon other entities that already have the necessary immobilizations, process that corresponds to the **external growth**.

Quoting L. Stoleru, we can surprise the internal growth as a 'development of the enterprise obtained by the efforts on the market and the own investments in the

production capacity’.

**Without forgetting the fact that we started from a question, we consider appropriate to present also the limits of this growth, limits that constitute themselves in true catalytic of the appearance and evolution of group structures.** Thus, a prime impediment appears when it is pursued a strategy of diversification. This can develop slowly due to the fact that the entity must approach new products and markets within which has a limited experience. Also, sometimes, the internal growth can generate the risk of an non-operating gigantism and difficult to control.

Judging from the evaluating point of view the other modality of expansion, **the external growth**, we observe that this was a phenomenon that characterized the economy of the industrialized countries. During this period, the magnitude of the operational of external growth was favored by the conjugated action of more factors, such as the more and more accentuated competitiveness, that imposed a re-structure of the groups, the internationalization of exchanges, that obliged the entities to search for a sufficient measure in order to take advantage on the unique international market, and the development of the stock market of the stocks and the stock-exchange crash from 1987.

This type of growth is characterized by the fact that the entity cannot obtain directly production goods necessary for its development, but establishes connections with the entities that already possess these goods, thus being able to use them, being able to constitute itself either by taking over the interests that will ensure it absolute control over another entity, or can finalize simple agreements of cooperation with them.

**Being given these characteristics, we join the opinion of the specialists in the filed who state that ‘the adaptation of an external growth strategy is preferred instead of the internal growth due to the inferior cost’ and the advantages that offers the taking over of the control in terms of portfolio of activities and savoir-faire.**

As a base of constitution of a group of entities, Maurice Nussenbaum associates to the external growth realized by the taking over of the control upon another entity, more objectives, from which we remember:

✚ The pursue of some industrial objectives, concretized within the realization of synergies.

Thus, the growth of performances can be explained by the realization of operational and financial synergies, the incomes being able to appear as a consequence of the increase of the quota of market due to the horizontal acquisitions, when the acquired entity is from the same sector of activity with that of the buying entity, or vertical, when there are realized relationships of client-supplier nature between the buying entity and the one acquired.

**Judging like this, we thus find the solution recommended also to the Romanian entities, of improving its performances and of increasing its value, by the placing under the administration of a more efficient entity.**

The advantages that rise from this are eloquent, rising from the apparition of **scale economies**, that constitute the main objective in the case of operations of growth of horizontal type. Those resulted after a re-grouping operation will be bigger if the intensity of capitalization is bigger, like it is the case of the sectors from the heavy industry. Other advantages are constituted by the exploitation of the accumulated experience by the acquired entity, as well as the economies of variable costs by the reduction of opening costs.

✚ the resolution of the problems of agency and the remediation of an inefficient administration.

✚ the obtain of fiscal advantages.

**Within this evolving context, we cannot observe the fact that the groups of entities, including the industrial-financial groups and the trans-national companies of the XXI century, have become a basic element of the international economy, controlling over half of the industrial production and the global external commerce.**

**Looking from the perspective of defining and their specific,** the groups are structured around some entities that ensure them the conduction and reunite full member structures independent from the juridical point of view, but ‘connected’ by interests and/or contractual relations.

We can thus remember here **the determining factors** with decisive impact in the **apparition and extension of the groups of entities** or of the ‘giant’ entities, factors that permit them to deal easily with the conjectural influences and the adversities of an economic environment characterized by ‘turbulences’ of economic type, as well as social and political. Thus, on a dominant position there is the **economic concentration** as catalytic factor of the economic internationalization, but we cannot forget the other factors, we say, equally important, from which we mention **the economic development in the industrialized countries, the technological evolution, the globalization of markets, the existence and development of the financial markets,** but also **the conditions of access to the international market.**

The dominant role of the economic concentration, as generating factor of the apparition and evolution of groups, is emphasized by the trying of the entities to be less vulnerable, to increase their performances, to ensure the control of storages, openings, to reduce the risks connected to the business, to deal with the concurrence, but also to ensure a continuous expansion, lasting and stable, within a sure competition environment.

Taking into account the objective reasoning of the expansion of the group of entities, there must be mentioned the way in which it can be realized the concentration.

Thus the **vertical concentration** groups the entities that evaluate the complementary products or it is based upon commercial reports, in order to control the whole cycle of production. Practically the vertical concentration places the group in the upstream or in the downstream, in the flux of production. In the upstream, the vertical concentration presupposes the control realized by the group over its suppliers, as well as over the quality of the prime materials, of the semi-fabricated delivered by these, the regularization of supplies, being able to keep constant the quality and the cost. In the downstream, the group exerts control over clients, its products and services, pursuing thus the union of the networks of distribution, ensuring better the promotion of these products and the elimination of the competitive ones.

On the other hand, **the horizontal concentration** groups the entities that produce the same products or are in the same branch of activity, being competitive. The scope of such a process is that to consolidate the position on the market, the rationalization of its own techniques of production and distribution, diminishing thus the unitarian cost of production.

We can mention also the form of **conglomerate concentration,** that regroups entities without economic connections between them. such a determinant factor of constitution of the groups is based upon the ration of optimization of the profits and of

the insurance of a bigger stability regarding the economic crisis.

The concentration is realized in different economic modalities, juridical and financial, but often complementary, mainly by an internal development of the entity, by the establishment of connections more or less connected to other entities, without being compulsory these connections of juridical nature, by the absorption or fusion with other entities in order to realize an unique entity and, last but not least, we have to mention also the taking over of control upon some existent entities, aspect which, in our opinion, represents the most eloquent modality of constitution of a group of entities.

**Looking from this perspective and concluding, we observe that, under the aspect of its definition, the group is, in essence, the result of the external growth realized by taking over of interests to autonomous entities from the juridical point of view.**

The constitution of a group is based upon the essential idea of dependence of an ensemble of entities, juridical independences, towards a common unity of decision.

**The group of entities** represents an ensemble constituted from various entities that each have their own juridical personality, connected between them by interests of capital the confer one of them, named leader-entity, the possibility to exert a control over the whole ensemble.

The dependence against the common unit of decision may have **financial** nature, that results from the possession of the majority of rights to vote within the general meeting, **directorial**, that results from the possession of the majority of the members of the administrative board, **contractual**, which presupposes the agreement with an entity or with various of its shareholders, **economical**, that is generated by the economic connections that are developing between the entities from the group.

**Transposing these economic realities to the level of the competitive Romanian environment**, we can observe that this is funded upon the construction of an investments regime permissible to the multinational operators, fact for which, we give our opinion, that if we would look at Romania from the point of view of the **groups of entities** we can observe a few structural coordinates sufficiently flexible and connected in totality to the exigencies of the process of regional and global integration of Romania, that can be delimited like this:

✚ the possibility of sustaining an operational structure of the **holding** type or the **group of companies**;

✚ the development of some external commercial reports with a degree of transposition sufficiently competitive in comparison with other investing regions from Central and East Europe. This aspect is viewed through the imposing regime practiced in accordance with the provisions of the European Union as elements of reference in the structuring of the legislative frame corresponding to a complete functioning of the internal and external competitive mechanism;

✚ the fluidization of the systems and politics of crediting practiced at the regional scale and especially, European of assimilation of functional mechanisms specific to the multinational corporations with conglomerate character.

Looking to the investing structures through some operational centers globally administered (Lasserre Ph., 1992) – **the groups of entities** – we can identify during the contemporary period, a diverse amplitude manifested within the state of **group companies** (Dambischi A., 2001).

**We think that, in its ensemble, this modality of management is applied to the competitive and institutional frame from Romania, despite the inexistence of a**

**legislative system that should regulate these forms of manifestations of the investing operations.**

The existent differences between the system of standardized companies, funded by the Law of commercial societies and the operational characteristics specific to the "Holding" societies, there are explained by the fact that the latter ones have the state of those organizational entities, specialized in taking over and the management of portfolios of other entities with similar or different profile (for example ex.: Mutual Funds of Investments/ Societies of Investment with Variable Capital – Sicav, Societies of Movable Values).

On the other hand, the afferent legislation to the functionality of stock commercial societies (S.A.) and of those with limited responsibility (S.R.L.) **permits the identification of the optimal organizational systems for the development of "Holding" companies**, under the aspect of optimizing the report investments-fiscality.

**From this perspective, the analysis of the accountancy system from Romania reveals the existence of the group of companies as a typical entity of the organizational configuration associated to the "Holding" societies, by the "Class of Accounts 45", afferent to the registrations regarding the "Group and the Associates", with pale attempts of implementation of the other forms that it can take.**

Within the plan of competitive relations, **the "Holding - Group of companies" differentiations** may be synthesized like this (Bernard, Yves; Colli, Jean-Claude, 1989):

✚ **The "Holding" Company** presupposes the existence of some organizational entities partially or completely independent under the operational control of a distinct entity, that is a stock society;

✚ **The group of companies** is funded on the existence of some subsidiary industrial centers, characterized through a decisional system consolidated on the analysis of capacity indicators and of financial responsibility, while the fiscal imposing regime, afferent to the investing entities specialized in participative operations, presupposes **three successive stages**, structured like this:

✓ the dividends afferent to the investing company are paid by the society issuing of the respective movable values (the situation of independent entities, subsidiaries) only after the payment of the imposition quota for the gross income realized, that is 16%, to which there will be added different percentages of imposition specific to the field of activity ( the case of the standard imposition system) (Arthur Andersen, 2001);

✓ the dividends pertaining to the investing company are perceived in the portfolio of its incomes only after they were subjected, within the distributing society, to a rate of imposition equivalent to 10% from the quantum of financial resources corresponding to the associated company;

✓ the profits registered by the "Holding" company, after acquiring diverse portfolios of titles, are perceived as 'Incomes from interests', being subjected to the regime of imposition afferent to any organizational entity;

These aspects delimitate, in fact, **the functional criteria** that can be at the basis of different **means of management of the financial operations specific to such a group of entities.**

Yet an important role, at the international level reverts to some group structures with a much more bigger span than that of those uniquely implemented within the economy of a single state. It is about the **multinational group**, seen as an ensemble of different nationality entities autonomous from the juridical points of view that are under

a unique leadership.

**We join the opinion of the specialists in the field who sustain that, although the multinational groups represent ‘the most active actors of an international economy’ (Săcărin M., 2001), there cannot be ensured a convergence in what concerns their definition.**

Looking in an evolving manner in general, especially the international one, we see ourselves forced to remember that the first multinational groups that are dated from the XIX century, among these being fond the Anglo-Dutch groups: Royal Dutch Shell, Unilever; British: ICI, Lever and Courtaulds; Belgians: Cokerill, Solvay; French: Michelin, Rhone-Poulenc; German: Bayer, Siemens; Dutch: Philips; Swiss: Nestle. Also, among the oldest American groups we mention: Singer Sewing Machines, Standard Oil, International Harvester, General Electric, United Fruit Company etc.

**The amplitude that the multinational groups have today is uncontested.** If in the 70s there were approximately 7.000 of multinationals, exclusively the financial ones, in the year 2007 their number exceeded 63.000.

Also, **another defining aspect** in our opinion, for the formation of an image of the ensemble over what it represents the **evolution of multinational structures**, is constituted by the realized sales from the outside of the countries of origin, that exceed the value of international exports of goods and services.

Looking from the structural point of view, we must mention that **direct investments represent the modality by which there are constituted the multinational groups.** The direct investment can be realized by the creation of a subsidiary abroad as well as by taking over interests to an entity already existent and with different shapes: joint-venture, fusion, acquisitions, strategic alliances, etc.

Thus, **the common subsidiary (joint-venture)**, is created by at least two partners, having a distinct juridical structure in order to realize an activity subjected to a common control of the implicated parties, that keeps its own juridical personalities and the strategic independence over the developed activities.

**The advantages** of this form of constitution of groups are represented by the fact that this subsidiary reduces the importance of investment and represents a relative protection against the political risks and expropriations, being able to create a synergy effect for the participating entities, if these associate their strong points from different fields.

**The impediments** generated by the creation of such a subsidiary are connected to the differences of management, the impossibility of respecting certain obligations taken at the moment of its constitution (the obligation to finance the activity, the export of a percentage of the production etc.), the losses obtained that can cause big problems to the group that wants to retire.

**Remaining in the sphere of the international economico-financial context specific to the constitution of entity groups, either national or multinational**, we cannot omit the decisive impact of the stock exchange growth on the European and American markets, of the financial crisis from Asia, the privatization from the East-European countries, all these determining numerous groups to launch themselves in operations of external growth trough the **trans-frontier fusions and acquisitions.**

**The eloquence in this sense, in our opinion, was the fusion between the Daimler-Benz and Chrysler groups, resulting the giant Daimler-Chrysler, as well as the acquisition of the Doosan Beveradge entity by the Coca-Cola group and examples may continue.** At the national level we mention the special ascension of

**the Flamingo group, that, for the matter, will be the object of our detailed research, at continuation, without forgetting the UTI Group or Petrom, entities of reference for the autochthon business environment.**

The advantages of these fusions are concretized in the realization of some scale economies, representing a rapid means of growth of the market quota of that time when the currency of a country is weak. The groups that have spread at the multinational level beneficiate of different advantages generated by the size, capacity to force the national barriers, the possibility to use the national differences.

**Concluding, we think that the role of the holding entities, of the group of companies in essence, within the process of development of a national economy, is essential under the aspect of the impact exerted upon:**

- **the level of population occupied in the sense of reducing the unemployment rate;**
- **the quantum of incomes brought to the public budget, as well as in the field of flexibility of the industrial structure and of adjustment of the latter, to the exigencies imposed by the internal and external competitive environment.**

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