



## World Experience In The Organization And Functioning Of Financial And Industrial Groups

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### ABSTRACT

The article considers the generalization of the international experience of FIGs and also substantiates the regularity of the merger of banking and industrial capital in modern conditions. It outlines the experience of the formation of financial in-industrial groups in Japan, Germany, France, USA, South Korea.

### KEYWORDS

Financial and industrial groups (FIG), integration, interrelation, corporate associations

### INTRODUCTION

The world experience of economic development testifies to the fact that in a market economy, FIGs are a form of successful large business. If we trace the history of the formation of market economies in most countries of the world, then one direction stands out, which is progressing with the further development of these countries. It is

expressed by the peculiarity of the process of concentration and centralization of capital, on the basis of which the technological base of economies is formed and their breakthrough into the leading positions in the world arena<sup>1</sup>. Currently, in developed market countries, financial and industrial capital is being actively merged. On this basis, the formation of

<sup>1</sup> Belyalov A.Z. Foreign experience in the development of FIGs // Bulletin of the Association of Economists of Kazakhstan. - 2003.

financial and industrial groups takes place. This process reflects the objective sustainable trends of the modern developed economy. The interrelation of the main types of capital (financial and industrial) has reached such a degree that their separate existence is impossible. Financial and industrial groups have become one of the powerful mechanisms for various economic growth in many capitalist countries. In countries with highly developed market economies, FIGs play a very important role and occupy a significant place in the national economy<sup>2</sup>. The purpose of their creation is to strive to effectively influence the market through control over the production and distribution cycle from one center<sup>3</sup>. The structure and nature of financial and industrial corporations in individual countries reveal both similar features (facilitated by the activities of transnational groups) and noticeable differences. To a large extent, the latter is due to specific historical circumstances manifested in the legislative regulation of the role of financial institutions in relation to corporate ownership and management. The economies of foreign countries demonstrate a variety of organizational and economic forms of corporate associations. Among them, there are both traditional concerns headed by a large industrial corporation and universal FIGs that have formed around banks. A characteristic feature of the industrial complex of Japan today are six universal diversified financial and industrial associations called "shudans": "Fuyo", "Mitsubishi", "Mitsui", "Sumitomo", "Dai-Ichi Kangyo" and "Sanwa". The account (taking into account controlled firms),

according to various estimates, from 30% to 40% of all assets of Japanese corporations and financial institutions. Enterprises belonging to one of the leading FIGs provide more than half of total sales in a number of Japanese industries. Trading companies of the groups carry out more than half of export-import operations, and their share in the import of certain goods reaches 90%<sup>4</sup>. Shudans are self-sufficient, universal diversified economic complexes, formed according to certain general principles. The organizational structure includes financial institutions (banks, insurance, and trust companies), trading firms, as well as a set of manufacturing enterprises that make up the full range of sectors of the national economy<sup>5</sup>.

### Materials And Methods

Keiretsu industrial associations, which are part of the shudans (financial and industrial associations), are built, as a rule, on the principle of vertical integration. Hierarchical verticals arise from the natural orientation of the technological chains of related industries towards the final product. The same principle is implemented at the following structural levels. As a result, a multilevel and hierarchical structure arises, in total, incorporating many thousands of firms (legal entities). Financial and industrial groups in Japan do not have a legal organization and a single, official control body.

The coordination of the group's activities is carried out on the basis of meetings of the presidents of their corporations and banks. At

2. Dementyev V. Financial and industrial groups in the Russian economy (special course) // Russian economic journal. - 1999. - №2.

<sup>3</sup> Tsvetkov V. A, Financial and industrial groups in the modern world // Industrial policy in the Russian Federation, - 2000, - No. 6.

<sup>4</sup> Leont'eva E. Financial situation in Japan // World Economy and International Relations. - 1999. - J ^ 24.

<sup>5</sup> Kuznetsova I.V. FIG. Of Japanese ooze // Management in Russia and abroad. - 2004. -K "

these meetings, decisions are made on all issues of production and financial activities. Participation in the club of the presidents of one FIG does not exclude the possibility of participation in the club of the presidents of another company. For example, Kobe Steel simultaneously participates in FIGs "Dai-Ichi Kangyo" and "Sanwa".

The unity of the group is based on multilateral ties between its members - mutual ownership of shares, cross membership in boards of directors, preferential lending to the group's companies by its bank, organization of intragroup contractual relations, and exchanges covering the circulation of financial and industrial resources, scientific and technical information between the group members. In each syudan, there is a tendency to have its own company in the most important sectors and sub-sectors of industrial production. This diversification helps the entire association to maintain control over key industries while curbing the monopolistic tendencies of competitors. The widespread use of borrowed funds by corporations is one of the factors of Yanon's economic achievements. Therefore, the largest bank is an obligatory member of the soil, and according to many estimates, the core. Insurance and investment companies, trust banks also work with him and under his control; all of them are "their own" for the firms of this syudan and form its financial basis.

Japanese FIGs demonstrate cost savings based on the specialization of the funded enterprises. The cost-saving cooperation of the Japanese financial and industrial group participants in the supply and marketing spheres is especially significant in foreign trade operations.

An important integrating role in financial and industrial groups belongs to universal trading

companies. They perform in the creation of the functions of a universal "salesman" and "supplier", moreover, a kind of "department of external relations" in the development of new areas of activity, in which the established firms have practically no sales and supply opportunities. To their previous functions - suppliers of raw materials and organizers of sales of products of the group's companies, including abroad, - a number of new ones have been added recently, primarily providing all kinds of information and marketing services<sup>6</sup>. These services, as well as the well-coordinated functioning of industrial and technological complexes, provide partners in FIGs with additional profit. Financial and industrial associations existing in the United States can be conditionally divided into two groups: the first includes structures with a dominance of banks, while control over enterprises is exercised by banks. Among the most famous banking associations with a set of controlled enterprises, we will single out the companies "Chase", "Morgana", "Mellon", "Limen-Goldman, Sachs". The organizational structure of banking financial and industrial groups 43 is a horizontal association of large firms of the oligopolistic type, in the center of which is a leading commercial bank [36,38]. The second group is dominated by industrial enterprises (General Motors, El du Pont de Nemours, General Electric, Ford Motors, AT&T), but their financial structures are also quite strong (General Motors Acceptance Sof. ", " General Electric Capital Services ", " Ford Motor Credit Sof. ", " IBM Credit Sof. ", Etc.) A characteristic feature of these groups is the prevalence of the vertical component over the horizontal. For example, the backbone of the General Motors group is the world's largest automotive concern. The parent company of the concern acts as a parent company in relation to a thousand companies of the group, controlling

<sup>6</sup> McMillan Ch. Japanese industrial system: Per. from English - M.: Progress, 1988.

their production and financial activities through participation in capital.

In addition, the United States is also characterized by a tendency to increase activity and trade capital both in penetration into industry and financial institutions. Trade concerns are following the path of creating, if not financial and industrial groups, then certainly the path of forming subgroups in which they play a very significant role<sup>7</sup>.

American firms prefer full-scale acquisitions to cover strategic business operations, as opposed to Japanese firms that operate through inter-firm ties. The degree of concentration of production varies from industry to industry: large business predominates, in particular, in transport and power engineering, while concentration is low in the garment industry. A rapidly developing form of financial and industrial integration in the United States is strategic alliances for the purpose of implementing investment projects, conquering the market, mastering new technologies, and solving other strategic problems.

An example of a strategic alliance is joint research of the Big Three (Ford, General Motors, and Chrysler in areas such as plastics in the automotive industry and battery design for electric vehicles. American campaigns are trying to get away from their former isolation, to establish cooperation with other companies, while maintaining strategic independence (the behavior of Ford and IBM is most often cited as examples of this kind of action.) New economic realities in the United States are driving the shift from traditional contractual to long-term partnerships with

suppliers. So far, however, American firms are dominated by an individualistic model of corporate behavior<sup>8</sup>. Diversified financial and industrial groups in Germany are the result of cross-sectoral integration of concerns around the country's leading banks (such as Deutsche Bank, Dresdner Bank, Commerzbank). The core of this kind of soil includes concerns: Siemens, Bosch, Daimler-Benz, Thyssen and others (Deutsche Bank group); "Hoechst", 45 "Krunn", "Grundig" and others (Dresdner Bank group). The activities of the concern most often extend to one sector or even a sub-sector of the economy. Only a few of the largest concerns cover the entire industry (for example, the Siemens concern for electrical engineering, and the Thyssen concern for the steel industry)<sup>9</sup>. Concerns operate in those industries where large-scale and mass production is developed, high technologies are used. In Germany, these are ferrous and non-ferrous metallurgy and the steel industry, mechanical engineering and the automotive industry, the chemical and electrical industries.

Strong groupings of enterprises are also observed in other European countries. For example, in France, a wave of nationalization and privatization left an imprint on shareholder ties between banks and industrial companies. Most of the banks were denationalized between November 1986 and March 1988. Participation in the capital of other banks is typical for French banks, i.e. formation of banking groups. At the same time, leading commercial banks (the Parisian National Bank, CrediLione, Societe Generale), following the example of German banks, are beginning to invest in large industrial enterprises. There is a trend towards the integration of French and German banks. Diversified equity holdings,

<sup>7</sup> Baev I., Gozhin S. Diversification of industrial relations of enterprises in the United States // World Economy and International Relations. - 2001. - No. 10

<sup>8</sup> Anikin A. US Economy at the End of the Century: Results and Problems // World Economy and International Relations. - 1998. - №11.

<sup>9</sup> Lampert X. The Social Market Economy of Germany: The German Way. - M.: Delo, 1994.

including industrial capital, are demonstrated by finance campaigns such as Paribas. The grouping is also typical for the industrial sector of the French economy: ten groups own a third of the country's industrial assets. The largest of these groups is Elf-Akiten. One of the essential guidelines for the integration of French FIGs is cost reduction. A study of 300 French inter-company groups (groupings) is found to dominate industries characterized by high economies of scale, capital intensity, significant R&D expenditures, and intense overseas activities.

South Korean FIGs ("chaebols") are highly diversified macrostructures with a clearly defined dominant link, oriented in their activities towards central planning, authoritarian leadership, and aggressive investment policy. The growth of large South Korean chaebols was openly encouraged and supported by the government, which contributed to their transformation into the dominant element of the economic structure of South Korea<sup>10</sup>. Beginning in 1975, the South Korean government, copying the Japanese model, created 13 universal trading companies based on the largest financial and industrial groups. Their influence on the economic development of South Korea, on the dynamics of its foreign economic relations, had grown significantly by the mid-1980s. These companies have become the largest exporters of industrial products and entrepreneurial capital. In the mid-1980s, 11 leading South Korean corporations owned approximately 40% of the authorized capital of the country's five largest banks. At the same time, the largest "chaebols" (such as "Hyundai", "Devu" and "Samsung") had their own interests in all these banks. A characteristic feature of Korean chaebols is that they do not include a financial

institution. South Korea is characterized by the option of owning industrial conglomerates of banking institutions. In particular, the experience of South Korean financial and industrial groups has proved that national capital is able to compete on world markets only if it itself is dynamically structured into large formations, closely interacts with the state, which, in turn, contributes to its dynamic development and appropriate legal support<sup>11</sup>. The relationship between FIG participants in developed countries can be reduced to cooperation and competition. Participation in a group does not eliminate the possibility of independent development of firms, and, consequently, 51 competitive confrontations between them. The composition of FIG participants changes over time. Mergers and acquisitions of the largest corporations intensified sharply in the West in the 70s and 90s. Some of the mergers and acquisitions take place within the same FIG.

## CONCLUSION

World practice shows: financial and industrial groups are economically viable, they provide their members with easier access to financial resources and transactions with securities, control over the use of these resources, better knowledge of the economic situation, coordination of actions, pooling of funds, assistance to firms in dire straits. An analysis of the experience of industrial development in the advanced countries of the world shows that the economy is oriented towards large national and transnational corporations and FIGs, which enjoy state support. They are guided by the priority of the national development strategy, diversify their activities through the use of industrial, banking, insurance capital, widely take advantage of the market conditions of business, and

<sup>10</sup> Suslina S. S. Republic of Korea at the post-industrial stage of development. -M. : "Vost.lit." RAS, 1997.

<sup>11</sup> Fedorovskiy A., Dimitrov D. Development of integration processes in the APR: the role and priorities of South Korea // World Economy and International Relations. - 2002. - No. 6.

communicate the incoming structures on the basis of cross-ownership of shares. This situation turns FIGs into a kind of generator of economic growth and stability.

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