

## Modern Financial Strategy of Large Industrial Corporations

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**Abstract:** The scientific paper proposes a new approach to the financial strategy of large corporations in a changing mechanism of distribution of value added, actualizing the need to consider non-financial factors.

**Key words:** Financial strategy • Industrial corporation • Value-added • Non-financial factor • Efficiency

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### INTRODUCTION

The modern financial and investment model of development of large corporations requires consideration of several parameters such as extra-territoriality, high importance as an infrastructure component of the economy, a significant social burden as a major employer, etc. With limited growth in the turn of post-crisis development, caused a reduction of budget support programs of modernization, forming an effective architecture of financial instruments corporations is extremely important issue.

Large corporate structures which are attractors significant array of productive resources, are able to act the leading determinants of the level of economic development of entire spaces, because their activities are topographically associated with specific economic zones, both in direct production activities, as well as for distribution channels. Should be considered in this modification of the process of production of value under cooperation corporate structures, as well as the distribution of value added between units corporations: most of the economic benefit from the added value produced by modern corporate structures transmitted to the corporate financial center, ignoring the classic concept of the formation of value as such (Nikolaev, 2013).

Structural-quality contours economy proved themselves after the 2008 crisis, clearly favor the thesis maintaining the prevalence of priority of the financial sector that actualizes the problem of the formation and

implementation of financial strategies of large corporations necessarily taking into account the following aspects:

- Financial strategy is inextricably correlated with general and determines its timing;
- Formation of the financial strategy for the post-crisis stage of development of the global economy is shifting from purely instrumental field in the methodological;

Financial strategy under finance determines the production of value and therefore should take into account its partial deactivation and offset the cost of the attractor for innovative technologies.

The category "financial strategy" (financial strategy) of instrumental field moved in the methodological and now this category is a complex integrated terminological concepts, covering various aspects of not only financial management and corporate governance in general. Classic and direct feedback from the general financial strategy does not reflect the entire multidimensionality financial management in modern corporations. Modern financial theory requires financial accounting strategies in all industrial, financial, organizational, marketing and external aspects in achieving not just profit (profit) and long-term steady-state and high adaptability in the case of expansion of systemic risk.

In today's state of the global economic system, characterized by a sharp jump in uncertainty as the dominant characteristics of the functional field of

economic agents becomes most acute issue of managing risk as the actual implementation of the level of uncertainty. Economic system that is in crisis, stagnating due to the effect of accumulation of uncertainty (and therefore risk) was observed in all sectors of the economy.

Roots lie in the scale uncertainty of the new systemic nature destructions economy. Recommendations of crisis techniques developed during past economic shocks, do not have adequate influence on the economic system, as these circumstances are radically different from the past. This is not only the fact that destruction are the product of financial globalization, with its financial innovation, but also the fact that the global economy now requires not only combating the sources of economic disturbances, leveling negative socio-economic effects, but also confront systemic decline of global economy.

From this perspective, modern financial corporate strategies require consideration of significant number of parameters not previously possessed valuation and not intended to be accounted for in the financial strategy: human capital and its inherent competence, innovation potential and the ability to implication of innovation, quality risk management, reputation management, organizational capital.

Innovative potential and ability to become the implication of innovation is one of the main parameters of the success of marketing strategies of corporations. It is the use of innovation can ensure success in overcoming stage corporations, when the industrial economic system as close to the limit of its development. Innovative technologies are a powerful attractor of financial resources, since innovations are able to provide leadership in the market breakthrough or substantial savings in production costs. Under these conditions, natural and appropriate estimation parameters enhance innovation capacity to analyze the formation of the corporation's financial strategy, preferably in conjunction with benchmarking.

As today's large corporations are, in fact, configurators economic space, insofar updated management problem aligning the interests of business and government. Furthermore, it is a large corporate structure bear the high social burden, because they are a significant part of employers for the country's workforce.

Manage revival of institutional forms of interaction of corporate and public sector produces circuit implementation of the state socio-economic strategy, based on the functions of the state as an institutional

innovator and corporations-as a self-regulatory organizations operating in the circuit model of the neoconservative strategy which is based not only on the principles of cost-effectiveness of the liberal school but also takes into account the interests of society with predictable social effect. Neoconservative presupposes not return to something previously the former, but only the restoration of the role of ideological and spiritual beginning, rising to the transcendence of the universe, of course, coupled, of course, with the scientific and technical component.

State attracts private investors and to achieve the objectives dictated the changed conditions of the economic environment, the construction and reconstruction of roads, communications, electricity transmission networks, airports, educational institutions, hospitals and other infrastructure facilities. However, the admission of private capital to infrastructure projects transforming efficiency standards, which is quite typical for reducing the concentration of the situation on the market. Thus large cluster- network corporation carrying high social burden, forced to form a new paradigm for the operation through organizational design, followed by reform and the introduction of new corporate standards.

As a result of this integration must be designed efficient organizational structure management (functional areas) and collaboration within its business units (business processes). Object management should be a single system of interconnected business processes that create value for the consumer and functional areas, combining similar functions within the various business processes.

When observed inhibition of growth of national economies, one of the most practical ways to get out of economic stagnation traps with appropriate liquidity shortage of financial resources, is to develop innovative growth points, but must change the very paradigm of innovative modernization. So, in the new economy the most important resource is the human capital, since ensuring the efficiency of production is possible only if the correct application of existing and innovative technology that is included in the functional field is human capital. Becoming a knowledge-intensive economy requires the use of tools of the corporate sector support and development of human capital, which in finance conditions have the form of financial instruments.

At the most basic level, financial strategy is a program providing corporations the necessary funds and, therefore, normal financial stability in order to optimize

profits. As large corporations have a high social burden, so far one of the most important parameters required to account for modeling financial strategy are personnel costs and these costs must take into account not only the wage fund, but also the financing of the social package and costs training, retraining and advanced training, since human capital is the main driver of economic growth in the post-economy and he's able cause significant risks.

The main criterion for the management of financial resources is the efficiency (the ability to achieve the desired result with the least cost). Due to the fact that human capital is the most expensive resource, the study of financial instruments for human capital development, as well as research methods to assess the effectiveness of such investment theme seems relevant and promising, especially in the annex to the largest employers. To achieve these goals it is necessary to finding domestic sources of financial resources that have significant advantages over the involved. The mechanism of mobilization of domestic funding sources is based on cost optimization strategy of the corporate structure.

In the context of enhancing the role of the human element in the economic and social development are key resources information and knowledge in the reproductive process. If at the beginning of the last century, most competitive advantages achieved by providing access to limited natural and financial resources, by the beginning of the new millennium, leaders began to win the competition, mainly from the technological, managerial and financial innovations generated by human creativity. Flexibility and ability to respond quickly to changing internal and external conditions of development, the ability to maintain and strengthen their competitiveness are essential qualities of modern organizations.

Development of socio-economic policies of major corporations in the new economy should be aimed at stimulating the formation and implementation of competence- competence approach to management. Knowledge-intensive economy requires knowledge-management decisions employees and their level of competence depends on the stability of the organizational system and its competitiveness and, ultimately, financial performance.

Extraterritorial large corporations such as JSC "Russian Railways", provide the infrastructure reproduction of human capital as through social responsibility programs can ensure the realization of the concept of lifelong learning tools to support the implementation of housing programs, health programs.

In Russian practice social responsibility are often wrongly perceived as a burden of extensive development. For international corporations is a tool to attract investors because such corporations investing in education, health care and pensions of its staff, financial gain and investment appeal as they get approval of the population - the buyers of products and they deserve the approval of the State through the attraction of the social burden; they become more stable and resilient, so-more reliable, including borrowers and sellers of its securities and they form their own corporate culture of innovation by forming their own research and educational centers, they get a long-term competitive advantage due to the formation of knowledge- management technologies as well as the high competence of employees, they can implement within the corporate structure competitiveness approach in its pure form, because they have the relevant infrastructure, they form a positive goodwill and have a strong infrastructure for creating a positive brand through direct advertising through employees and customers.

Should change primarily approach to human resource management, as human capital-is the most expensive resource in the modern economy and therefore, in order to ensure the effectiveness of its attraction, it is necessary to identify precisely enough demand for it, its zone of authority and methods of making economies of scale. Attract highly intelligent labor unproductive types of activity do not qualify for investment and financial performance.

In the context of the need for early modernization of the production system, as well as taking into account the slowdown in the global economy, it is necessary to find new tools and technologies for industrial, institutional and financial efficiency. Traditionally, manufacturing companies saw themselves only manufacturers and suppliers of goods that have little to do with the provision of services. Today this concept is outdated. Distinction between the production of goods and provision of services is eroded more and more. Provision of services is becoming an important element of manufacturing companies moreover a number of essential services are components in the formation of value added (for example, transportation and logistics services). From these positions, innovative modernization of production infrastructure requires consideration of service trend otherwise it will be lost economies of scale in the inter-sectorial cooperation corporate sector companies.

Large industry corporations seeking to ensure the sustainability and competitiveness of development, developing new management system based on the integration of tools and technologies. Modern management is based on the application of the process approach, considered as a result of the evolution of control systems. This approach involves the separation of the business into separate elements (resources, division), combining them into a certain structure (management, production) and coordination functions within the workflow (the joint activities of people and units).

Heuristic search of the best options for a generalized model of financial management capacity based on a formalized system of knowledge about the financial condition of the corporation and organizational capital, similar to the system symptoms and patterns, used for solving the problem of diagnosis. This information should help identify prospects and better options. Results developed procedures should be the corporation regulations containing a set of rules and aimed at creating not only cash flow, but also the development of institutional values within the corporation.

Financial regulations corporations should be adjusted periodically to adapt to changes in the environment and business structure. A generalized model of the organization of financial and investment potential of the corporation is the basis for a more detailed description of this area of business-organizational structures and management processes models (second level modeling), which is designed to ensure that intangible factors in the formation of financial capacity.

It is the formation and development of institutional values within the corporation as the dominant model is able to neutralize the distortion behavior management processes, leading to loss of financial performance. Thus, information systems really can dramatically increase the efficiency of management, but they do not eliminate the other problems of centralization. Automation does not stimulate innovative activity does not increase the staff and workers in the interest of achieving outcomes. Surprisingly, but in practice often makes automation not reduce and increase the administrative apparatus. In addition, the development and implementation of powerful information systems is costly financial and time resources and managers can successfully opportunistic sabotage implementation and periodic updating of software products. More than half of the projects related to the

development of corporate information systems, generally unsuccessful. They are usually the result is inefficient use of financial resources for the acquisition of electronic and software. Probably Russian companies, faced with the described problems should gradually realize that the potential of automation is limited and it should be combined with other areas of improvement of management systems.

We believe that the modeling of financial strategy should take into account the new realities of global economic systems and focus on the efficient management of intangible assets in terms of their financial performance. The formation of a financial strategy should carefully consider units possessing key competencies, as they are dominant in the production of value added. And the management of these units should be used not only narrow financial instrument ratings and consider innovation and investment component that is changing the concept of financial modeling in general and its tools in particular.

Thus, under the proposed concept of financial management strategy corporation combining A CVP models with fundamental analysis of financial ratios makes it possible to indirectly evaluate the contribution of human capital to the financial stability of the enterprise, as well as to reveal the internal reserves and sources of financial resources that can be used to improve performance autonomy, as well as to finance the development of human capital.

Analyzing the cost of formation of skills using the tools of the theory of investment decisions, introducing amendments to both inflation when discounting and at trending stream of income, corporation, within a simulation model that we determine the structural units that are able to give a real increase in the flow of profit after training. This units have high impact and should be subject to reduction in staff and staff rotation. Units not giving gain profit stream can be presented to staff reduction. It is worth noting that similar calculations can give a fair assessment only for the units directly involved in the generation of revenue stream. Those units that are engaged in research and development, engineering development, should be evaluated for other parameters and methods that approximate evaluation of intellectual capital.

Considering the features of the financial strategy of large corporations on the example of infrastructure companies, it may be noted dysfunctional financial management systems. Thus, the investment budget deficit

of “Russian Railways”, manifested in 2013, even if the optimistic scenario, will require an increase in the debt burden 2 times and vicarious—4 times. As far as possible such amount of state support, while difficult to judge, especially since the state is set to target recurrent funding infrastructure modernization projects. The reconstruction of the BAM requires extensive infusions, while the payback period of about 50 years. The management of JSC “Russian Railways” has determined that this project is unlikely to carry on the proposed state conditions (Andreeva, 2013).

Analysis of the project to attract private investors showed that in case of realization of the conservative scenario, the strategy of investors in the IPO market will include: purchase at a discount of 10% of the fair value, accumulation at discount from the offering price to 20 % of the fair price, buy in order to diversify the portfolio when placed at a price close to fair. If you exceed the fair price by more than 10 % participation in the IPO is not recommended. Because of JSC “Russian Railways” is of strategic importance for the national economy, to the extent to accommodate shall be elected domestic stock exchanges. However, the potential marketplace MICEX-RTS has serious limitations in terms of liquidity, which leads to the fact that on domestic sites will be able to find about 70 billion rubles per year, which is definitely not enough to cover the deficit of investment funds. From these positions, elimination of “Russian Railways” on the IPO can be considered premature.

The analysis of balance sheet ratios suggests that the financial strategy of JSC “Russian Railways” focused on large amounts of debt financing. In this case, the reduction of revenues and net income characterizes the decline in demand for carrier services. This is an alarming trend against the background of significant volumes of project financing. JSC “Russian Railways” does not meet market indicators of financial efficiency.

Thus, in the current circumstances, the financial strategy should be developed as a result of the harmonious integration of the estimated parameters of intangible corporate assets as strategic leadership in today's global economic system to provide leadership in the financial capacity of only together with intangible benefits.

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