

DEVELOPMENT OF THE CONCEPT OF GROUP OF ENTITIES**Natalia CURAGĂU, Assoc. Prof., PhD**

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Abstract

At present companies tend to concentrate because groups, including industrial and financial groups and transnational corporations, are currently a fundamental element of the world economy. The business of entities is not conducted solely through independent entities. There is a growing trend of establishment of groups of entities united among them by capital structure, and whose business is under the control of or is influenced by one of them. The latter entity is required to prepare and furnish, in addition to its own accounts, consolidated accounts of the entities of the group that it controls or influences.

The Republic of Moldova is also committed to this global system, but research in this area is insufficient. Thus, in this article, the authors decided to analyze some considerations regarding groups of individuals and their reporting. We used the study of special literature, regulations and the presentation of the generalization of the research results.

Keywords: *group of persons, cartel, trust, concern, consolidated financial statements*

1. Introduction

Currently, the groups of entities in the context of modern economies are as important as an entity being analyzed in particular. This explains the interest shown by different information users (economic and social partners) of the groups of entities in relation to the information presented in the financial statements on the economic and financial activity of the group as a whole.

Mankind is engaged in the historical process of transition to a new society and to a new economic system. Only general progress in human knowledge will be able to open new horizons towards the concentration of another type of society, respectively to the achievement of a new economic system, more efficient and fairer at the same time.

The creation of groups of entities also generated needs for the analysis of information, existing within the group during a management period, in the form of economic facts, necessary to be presented in global financial statements per group, using contemporary aggregation techniques. information.

There are a number of consolidation methods, which provide for the collection and processing of a large amount of information regarding the activity of the company / companies within a

group of entities. The choice of consolidation method depends on the share of ownership of the company (subsidiary, associate, or company simply made investments that do not give control) and the nature of the group of companies (there are investment or contractual relations between companies, or are owned by a person or a group of people).

The knowledge of the practical aspects of group formation, determined the need to research the ways of emergence of groups, which are currently the basis of various industries, commercial activities and services worldwide.

2. The degree of investigation of the problem at present, the purpose of the research

One of the methods of achieving general progress, from the economic point of view, is the performance of entities from all branches of the national economy of different countries. Currently, the economic agents tend to concentrate, because the group entities, including the industrial-financial groups and the transnational companies, have now become a key element of the global economy. The activities of the entity are not exercised only by independent entities. It has been increasingly noticed the establishment of groups of entities united to each other through capital ties, which in all their activities are under the control or influence of one of them. It will have to prepare and submit, besides its own summary documents, the consolidated accounts of the group of entities, that it controls or influences.

Currently, several dozens of groups of entities control over half of the world's industrial output and trade.

Local studies in this regard appear to be modest. The authors will highlight the Moldovan scientists Țurcanu V., Golocialova I. [7] who are interested in the subject in question and carry out in-depth research.

The topic is much better researched abroad. Passionate about this field are the Romanian scientists Feleagă N., Feleagă L. [5], Bogdan V., Popa D., Farcane N., Boloș M. [4], Săcărin M. [6].

The purpose of the research conducted in this publication is to examine important considerations regarding groups of entities and their reporting, to deepen their knowledge in the field. Particular attention is paid by the authors to the definition of the term "group of entities" based on up-to-date research, including various scientists and specialists in the field, and to the analysis of ways of concentrating capital, from a historical point of view, related to the nuances. groups of companies.

3. Applied methods and materials

The research method results from the analysis of the theoretical material regarding the development of the concept of groups of entities. In order to carry out this study, various research methods were used. The theoretical substantiation was based on analysis, synthesis, deduction, inductive method and graphic method, used for a clear and representative interpretation of the material. The study of the literature, the normative acts in force and the

presentation of the synthesis of the results of the study were used. The information support is the specialized literature in the field of accounting.

4. Obtained results and discussions

In the Law on accounting and financial reporting no. 287 of 15.12.2017 [1, art. 3] the basic notion “group” is regulated as the parent entity and all the subsidiary entities, taken as a whole.

According to the National Accounting Standard “Presentation of Consolidated Financial Statements”, “the group of entities” represents the parent entity and all its subsidiary entities, if the parent entity has control over the subsidiary entities [2, art. 5].

Both definitions are superficial, they do not contextualize the economic content of the term, so we will analyze various treatments brought by competent economists in the field, which will allow us to make some defining clarifications.

Various definitions of the group can be found in the literature:

- The group is a group of interconnected companies based on a relationship of economic dependence (this relationship can be institutionalized or provided for by a contract or statute, or dependence on simple economic relationships) and having a single decision-making center, called parent company. The group of companies is a dominant economic entity, comprising several independent legal entities, one of which leads (controls) the other. This joint (or sole) decision necessarily implies a relationship of dependence between the other companies and the decision-making company [4, p. 19].
- The group of companies is a group consisting of several companies, legally independent but linked by capital investments, which gives one of them, called the parent entity, the opportunity to exercise control over the entire group and to make a decision unit prevail [6, p. 13].
- The group is the parent company and its subsidiaries. In other words, the group is an ensemble of companies, each with its own legal personality, but with a unique decision center, called group leader [5, p. 24].
- Entities operate in the active market for goods and services by implementing not only their own operations, but also transactions that have received the name of corporate shares and, as a result, the activity of the legal entity is created or suspended, which is ultimately part of group of entities [7, p. 7].

Based on what was reported, the authors generated a broader definition of the group of entities. In the view of the authors, the “Group of Entities” represents all legal entities, which function as parent entities and subsidiaries, which fully or partially merge their tangible and intangible assets (participation system) under the contract for the establishment of the financial-industrial group. technological and economic integration for the realization of investment projects and programs and others, aimed at increasing the capacity to compete and expanding the market for products, goods and services, increasing production efficiency, creating new jobs, etc.

Thus, the “group of entities” represents the set of legal entities, registered by the competent state authority, which, based on the contract, have associated, in whole or in part, their tangible and intangible assets and function as subjects with equal rights of entrepreneurial activity. in order to carry out investment programs, aimed at increasing the competitiveness of local production and expanding the markets for goods and services.

The participants of the group of companies are considered the legal persons, who signed the contract for the establishment of the financial-industrial group and the establishment by them of the parent company and the subsidiary companies, which form the financial-industrial group. The financial-industrial group may include commercial and / or non-commercial enterprises and organizations, including foreign companies, with the exception of religious and public organizations. It is also allowed to include banks in several financial-industrial groups. Among the participants of the financial-industrial group is mandatory the existence of enterprises and organizations, which operate in the sphere of production of economic goods and provision of services, at the same time it is necessary the presence of commercial banks or other creditor organizations.

Next, the organizational forms of the groups of entities and the forms of concentration of the entities will be analyzed.

The organizational forms of entities in dynamics have changed and improved from simple ones to more complex and stable forms:

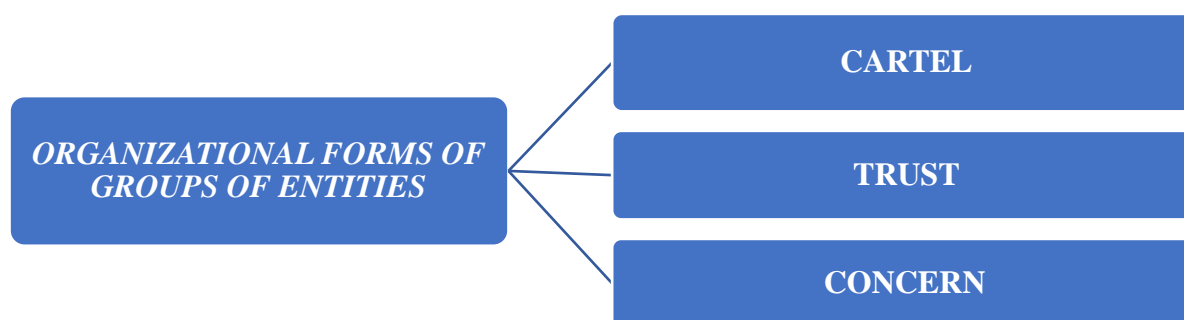


Figure 1. Organizational forms of groups of entities

Source: Elaborated by the authors

Cartels were the primary form of monopolies. The cartel is an association of independent firms, which are based on public or secret formal agreements seeking to maximize profits by restricting competition. The association agreement provides for a number of clauses, such as: the level of the marketing price, the production quotas, the division of the market, etc.

The volume of the total offer is set at the balance level between the marginal cost and the marginal income, and the price set in accordance with the market demand. Like in the monopoly market, the cartel price is higher than the marginal cost and the marginal income. The profit generated by the cartel is divided in accordance with the share of each participant in the overall production. This share is determined on the basis of the marginal cost level of each firm. If the activity of a company is more efficient (it records a marginal cost lower than the average), then it benefits from a higher production quota and from the total profit.

Having the goal of getting the highest profits, there is the possibility that some firms may not comply with the contractual provisions as regards the level of production quotas. If these quotas are frequently exceeded, then the price is decreasing and, as a result, the profit of the national or international cartel, such as OPEC is decreasing. In some countries cartels are prohibited by law.

The cartels were the favorable framework in which the process of production concentration was further developed. The largest entities have grown rapidly within them. With the emergence of antitrust laws in the European countries and the USA, cartels have been prohibited in the domestic markets, but they are admitted and even stimulated when they go out onto the foreign markets, which is currently typical for some European countries, and in particular the agro-industrial complexes and their food-processing industry, where manufacturers compete with each other, reducing the prices of related products on the foreign market.

Unlike the cartel which is constituted of independent producers, the trust is an association formed as a single entity belonging to an associate owner. Ownership of all entities in the association generates unique and absolute power [4, p. 10].

The trust is a form of horizontal or vertical integration of production and concentration of capital, in which the participating entities lose their production and marketing independence, their owners becoming co-owners. The trusts appeared for the first time in the US and later in other industrialized countries, where they first expanded largely, with many of the major companies of the modern industry growing in this way.

As a result of the adoption of anti-trust laws and of the development of financial markets, the trusts have lost their importance, being surpassed by more developed forms of concentration of production and capital.

Subsequently, the trusts began to create legally independent daughter-entities and turned into concerns. In this case, in order to reduce the trans-action costs, integration comes out of the company's ownership concentration framework, thus creating the so-called "periphery" of small and medium-size entities and establishing control over formally independent entities based on the system of participation, as well as on various technical, scientific, production and sales agreements.

Within the concern, the evolution of forms of industrial - financial integration - the number of owners (the cartel), the sole owner (the trust), the diversification of the property (concern) - seems to be over. In the case of European countries, the establishment of new effective forms of cooperation between large and small businesses is of particular importance. Although the concern, unlike the trust, covers a large number of legally independent firms, it is still practiced the single strategic direction in the field of technical and scientific, foreign investment and economic activities. At the same time, the scope of strategic management is considerably expanding, which makes the concern a superior form of integration.

At present, the division of the integration subjects is taking place, which is manifested by the permanent separation of the largest entities from the group of large societies. Thus, in the US, among the corporations that have concentrated their activities and which produce on the whole 70% of the gross domestic product (GDP), there are 500 prominent corporations, and

from this upper echelon a small group of 50 gigantic financial-industrial groups has detached, each of being on the average three times higher than the next 50 corporations.

Thus, in front of any entity that decides on its self-development, there exist the following alternatives: either directly buy the fixed and current assets necessary for its growth and employ staff to determine its operation, or take over a company that already owns the necessary assets.

The first way is called internal growth and determines the increase in the entity's tangible and intangible assets. This is often determined by the spontaneous development of the entity's markets and its operational and non-operational revenues as a result of the sustainable policy of the society directed to getting a higher share of the market by diversifying the production or by creating new products.

The second way is called external growth. In this case, the entity does not acquire directly the production assets necessary for its development, but establishes links with the entity already possessing those assets, aiming at the possibility of using them. This has the effect of increasing the financial assets. Growth from outside is preferable to growth from within, because it has a number of advantages: the cost of external growth is lower than that of internal growth and, on the other hand, it reserves the opportunity for the entity to speculate all purchasing opportunities. This is the form on which the formation of the groups is based.

Among the members of the financial-industrial groups must be organizations operating in the field of production of goods and services, as well as banks or other financial institutions. Foreign banks participate in financial-industrial groups only through their subsidiaries and branches, which operate under the license of the National Bank of Moldova.

Affiliates and other affiliated undertakings may be part of financial-industrial groups only with the parent company or another parent entity or with its consent [3, art. 26].

The formation of a group - which at the beginning of its activity has the advantage of owning the legal means and the financial techniques for a rational, less vulnerable and more efficient organization - responds to the essential idea, namely to subject a group of legally independent societies to a decision-making unit (management unit), in order to achieve a certain stability and continuity in their activities, and to avoid the inconvenience because of gigantism, possibly occurring in an entity that integrates its activities.

According to the Law on accounting and financial reporting no. 287 of 15.12.2017, with the amendments and completions up to date, the entity that controls one or more subsidiary entities is called the parent entity [1, art. 3].

In general, concentration is the grouping or regrouping of entities, activities, economic capacities, goods and assets considered in their development or realization. Concentration is determined by the need to increase economic efficiency, the ability of economic agents to act in increasingly global markets and competition. It can take place through capital accumulation, agreements, conventions, etc. It has as main effect the formation of large companies and concentrated capital, of powerful industrial, agricultural centers. But along with this, it leads to the disappearance of smaller and / or weaker firms, as well as to restraints to some activities.

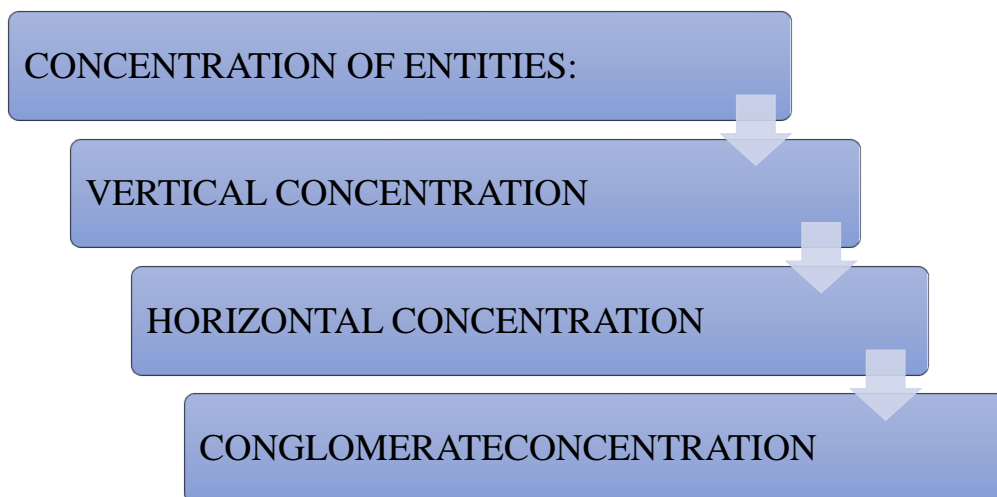


Figure 2. Forms of concentration of entities

Source: Elaborated by the authors

The concentration of entities can be vertical which means regrouping the entities, that are generally clients to each other or whose products are complementary. It is the case of subsidiary strategies, when the group aims at owning and controlling the set of operations of a production cycle from the raw materials to the finished product.

In practice, vertical concentration places the group in the production flow upstream or downstream.

Vertical upstream concentration involves the group's control over its suppliers, which will allow to control the quality of raw materials and of the semi-finished products delivered by them, to regulate their supplies and deliveries, also allowing the control over production accounts at the same time.

In the case of vertical downstream concentration, the group makes a step towards the consumers of its products and services, aiming to take control over its customers. This ensures, on the one hand, greater stability in its markets, with customers being integrated into their own structures and, on the other hand, taking control over product distribution networks, ensuring better promotion and elimination of those products that have become competing.

Concentration may also be horizontal, that is, the regrouping of entities that manufacture the same product type or evolve in the same industry. The group aims to increase its market share, which allows it to rationalize its own production techniques and thus reduce the unitary cost of production. In this case, it targets a cost dominance strategy, which allows them - in relation to its "weight" on the market - to impose certain prices.

There is also another form of concentration - the conglomerate, that represents a grouping of entities without seemingly economic links between them. The objective is the policy of risk diversification and profit optimization, thus ensuring greater stability in the face of economic crises.

Industrial or financial concentration phenomena have been carried out and are carried out in different economic, legal and financial ways, but often complementary, mainly through:

- internal development of the entity;
- establishing more or less tight links with other entities;

- absorption or reunion with other entities (mergers);
- owning control or creating other entities, or setting up a group of entities.

The existence of groups of national and multinational entities has led to changes in economic, legal, fiscal, social and, last but not least, accounting changes.

The concentration of entities is the phenomenon that determined the formation of groups. Concentration at the group level is the process of strengthening control, information, power, and merging assets into the hands of a few individuals and / or legal entities, which will allow the leaders of this unit to use enormous financial and production resources for a policy coherent and less dependent on the circumstances related to the country of implantation, the social climate, etc.

The consolidation of financial statements is a consequence (an effect) of the process of concentration and centralization of capital, the establishment of subsidiaries, subsidiaries within the concerns and groups of entities within the national borders of several states, on an international scale.

According to the National Accounting Standard "Presentation of Consolidated Financial Statements", the Consolidated Financial Statements represent the financial statements of a group in which the assets, liabilities, equity, income, expenses and cash flows of the parent entity and the parent entities are presented as to a single entity [2, art. 4].

The parent entity is required to prepare consolidated financial statements if it has control over the parent entities that are characterized by:

- the majority of the voting rights of the shareholders or associates in another entity;
- the right to appoint or remove a majority of the members of the board, executive and supervisory body, as the case may be, of another entity and is simultaneously its shareholder or associate;
- the right to exercise significant influence over an entity whose shareholder or associate is under a contract with that entity or a clause in the articles of association or statute of that entity;
- the fact that it is a shareholder or associate of an entity and has sole control over the majority of the voting rights of the shareholders or associates of that entity, as a result of an agreement concluded with other shareholders or associates of the entity [2, art. 5].

The consolidated financial statements include:

- 1) the consolidated balance sheet;
- 2) consolidated profit and loss statement;
- 3) the consolidated statement of changes in equity;
- 4) the consolidated statement of cash flows;
- 5) explanatory note.

The situations mentioned in sub-paragraphs 1), 2) and 5) are mandatory, and those in sub-paragraphs 3) and 4) have a recommendation character and are drawn up according to the information needs of the users [2, art. 12].

The consolidated financial statements are prepared on the basis of uniform accounting policies for similar economic events in similar circumstances. If an entity included in the

consolidation applies accounting policies other than those adopted in the consolidated financial statements, appropriate adjustments are made to the individual financial statements [2, art. 13].

5. Conclusions

The emergence of groups of companies is related to the entity development strategy.

When the production becomes very diversified or when the extension to foreign markets is to be achieved, the entity executives tend to choose between two possibilities: the preservation at the level of the entity of its legal unit and the creation of "departments" or branches, or the creation of specialized subsidiaries with its own legal entity, but with an activity under the tough control of a managing company, called parent company.

The same problem arises at the time of a concentration of competing or complementary entities, in which case one must opt between the merger - where one entity disappears, and / or the ownership of the participants - a situation that drives an entity under the control of another.

The groups of entities today have a very high economic importance. A few dozen of them provide much of the commercial activity in the major European and world industrialized countries. Entities called "multinationals" have subsidiaries in many countries, and their economic and financial strength sometimes exceeds that of a state.

The authors, in the process of developing the subject, aggregated the defining components of the group of entities, presented in various studies of contemporary authors and economics with emphasis on combinations of activities at the level of entities nationally and internationally, generating a definition that encompasses all elements the group, and directly, all legal entities, which function as parent and subsidiary entities, which fully or partially merge their tangible and intangible assets under the contract for the establishment of the financial-industrial group for the purpose of technological and economic integration for projects and programs of investments and other objectives that underlie the activity of the group of entities, contemporary structures for generating economic advantages, etc.

The establishment of transnational companies (TNCs), which carry out their activities on the territory of different countries, the establishment of entities with the participation of foreign capital, the emergence of different forms of commercial, industrial and financial links between companies required the disclosure of their activities in the form of Consolidated Financial Statements.

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Rezumat

În prezent, companiile au tendința de a se concentra, deoarece grupurile, inclusiv grupurile industrial-financiare și corporațiile transnaționale, reprezintă în prezent un element fundamental al economiei mondiale. Afacerile entităților nu se desfășoară numai prin intermediul unor entități independente. Există o tendință din ce în ce mai accentuată de constituire a unor grupuri de entități unite între ele prin structura de capital și a căror activitate se află sub controlul sau este influențată de una dintre ele. Această din urmă entitate este obligată să întocmească și să furnizeze, pe lângă informația aferentă conturilor proprii și cea aferentă conturilor consolidate ale entităților din grup pe care le controlează sau le influențează.

Republica Moldova se angajează și ea în acest sistem global, dar studii la acest capitol sunt insuficiente. Astfel în acest articol autorii au decis să supună analizei unele considerente referitoare la grupurile de entități și raportarea efectuată de acestea. S-a recurs la studiul literaturii de specialitate, actelor normative și prezentarea sintezei rezultatelor studiului.

Cuvinte-cheie: grup de entități, cartel, trust, concern, situații financiare consolidate

Аннотация

Сегодня компании стремятся сконцентрироваться, потому что группы, в том числе промышленно-финансовые группы и транснациональные корпорации, в настоящее время являются ключевым элементом мировой экономики. Деятельность организаций не развивается исключительно через независимые организации. Наблюдается возрастающая тенденция к формированию групп субъектов, объединенных структурой капитала и деятельность которых находится под контролем или под влиянием одного из них. Последнее предприятие обязано подготовить и предоставить в дополнение к информации, относящейся к его собственным отчетам, и информации, относящейся к консолидированной отчетности предприятий группы, которые оно контролирует или на которые оказывает влияние.

Республика Молдова также привержена этой глобальной системе, но исследований в этой области недостаточно. Таким образом, в этой статье авторы решили проанализировать некоторые соображения относительно групп лиц и их отчетности. Использовалось изучение специальной литературы, нормативных актов и презентация обобщения результатов исследования.

Ключевые слова: группа лиц, картель, трест, концерн, консолидированная финансовая отчетность

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