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Financial risks of the corporate sector of Ukraine under modern conditions

Ryzyko finansowe sektora przedsiębiorstw Ukrainy we współczesnych warunkach gospodarczych

Key words: corporate sector, globalization process, financial market, crisis phenomena, financial crisis

Słowa kluczowe: sektor przedsiębiorstw, procesy globalizacji, rynek finansowy, kryzys finansowy

Introduction

The corporate sector of Ukraine comes under increasing influence of globalization processes which take place not only in economic relations, but also in cultural, social and other spheres of public life. This influence is objective due to the development of the productive forces, society and humanity in general.

Relationships between the economies around the world leads to the processes being controlled in a universal scale, hence financial institutions and the banking system, which went beyond a single state limit and are supranational, assumed this role. The corporate sector falls under their influence, so the investigation of relationships within the corporate sector should be conducted in the light of globalization processes.

Considering the corporate sector in Ukraine, we should refer the foreign experience as the risks faced by the corporate sector in our country are systemic and occur within globalizing processes equally.

Investigation of risks in the corporate sector and prevention of the crisis generated by them determines the following aims:

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– Description of the main influential factors that cause risks and generate crisis phenomena in the corporate sector;
– Study of foreign experience as to the influence of globalization processes on the real economy sector;
– Suggestions to adapt the corporate sector of Ukraine in the context of globalization.

1. The influence of financial markets on the corporate sector under globalization processes

At present, it is ineffective to investigate crisis phenomena in the corporate sector separately, excluding the financial and economic processes at the state level, which are a part of the global economy. Ukraine has suffered the 2008–2009 financial crisis. The financial crisis has spread to the real sector, it badly affects economy, production, firms, investors, and the corporate sector in general. The crisis phenomena in Ukraine led to the implementation of anti-crisis measures on the Ukrainian territory as well.

Financial globalization, on the one hand, promotes cross-border capital formation, accelerates its mobility, and promotes the formation of transnational networks of banks and offshore jurisdictions. These processes open up new opportunities for the development of national economies, businesses, companies, etc. On the other hand, the openness of national economies and the interdependence of countries within financial and economic relations increase the risk of financial crises, the spread of negative financial processes that take place in the world[1].

The financial sector, based on the real sector and intended to ensure the continuity of the production process, has evolved and split into two parts. The first part continues to provide interaction between mechanisms mediated by the functioning of the real sector, promoting such important relationships as "producer – consumer" and "savings – investment". However, the second part of the financial sector currently provides the increase in the capital involved in speculative transactions[2].

However, we should mention the growth of the reverse impact of the financial sector on the real economy. This is confirmed by the recession of 2007–2009, when the global financial sector became the main link transmitting impulses of economic crisis between national economies[3].

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[1] Omel'yanovych L.O., *Finansova hlobalizatsiya*, in: L.O. Omel'yanovych. *Torhivlya i rynok Ukraïny*: temat. zb. nauk. pr. Vyp. 31, t. 2. Holov. red. O.O. Shubin. Donets'k: DonNUET, 2011. 407 p. [Elektronnyy resurs]. Dostupno z: http://www.nbuv.gov.ua /2011_31_2/Omelyan.pdf.

[2] Parkhomenko A.A., *Vzaymodeĭstvye real'noho y fynansovoho sektorov ékonomyky na étape fynansovoho kryzysa*. Vestnyk Tomskoho hosudarstvennoho unyversyteta, no. 338 (sentyabr' 2010), pp. 149–151. [Elektronnyy resurs]. Dostupno z: http://sun.tsu.ru/mminfo/000063105/338/image/338-149.pdf.

[3] Prykhod'ko B.V., *Finansovi rynky v umovakh hlobalizatsiï*. [Elektronnyy resurs]. Dostupno z: http://www.economy.nayka.com.ua/index.php?operation=1&iid=1165

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Prior to the crisis in the EU, according to the global calculations the euro was the second, after the U.S. dollar, reserve currency, whose share in the international accumulation of foreign exchange reserves had been steadily increasing. In the pre-crisis period the euro had the largest increase among all currencies that make up the international accumulation of foreign exchange reserves. However, the global financial and economic crisis significantly destabilized the euro, though the changes were not immediately noticeable. Given the main competition between the euro and the U.S. dollar, the evaluation of the strength and stability of the euro should be based on the analysis of the dynamics of the ratio of these currencies rates.

Destabilization of the euro started back in 2008. In March 2008, the ratio of the euro to the dollar was 1 to 1.25. This was due to the fact that most investors, financial and economic experts were convinced that the euro is stronger currency than the dollar. April 2010 became the starting point for the drop of the euro. In December 2009 the euro was worth 1.51 dollars, while in April – 1.35, i.e. the rate dropped by more than 10%. In the first days of May, the euro continued to fall, the rate of decline amounted to 3.5% and reached the level of 1.28. The main reason was undoubtedly the debt crisis in the EU countries. However, we should remember about the purely economic reasons that led to the collapse of the European economy. The interdependence of the economies of many countries became the main feature of the world economy as a result of globalization processes. To some extent, simultaneous collapse of economies of entire regions is a price paid for the benefits that were obtained in previous decades due to the spread of globalization, the opening of national borders to labour and financial resources, technology transfer, development of cooperation between the corporate sector in Europe, America, Asia, Africa and Australia. Another thing is that while anticipating benefits and admiring them, we do not always pay attention to potential negative effects. And sometimes these negative effects are either not noticed or ignored, as we prefer the benefits that subsequently turn out to be temporary. This temporariness is really long – 10–20 years, while the retribution, judging by the duration of the financial and economic crisis, also lasts for years.

Therefore, some problems of the European economy and European currencies are linked to the drop in the output and consumption in the U.S., where the mortgage crisis dealt a serious blow to the economy. And the European Union, namely its corporate sector, is one of the main partners of the US corporations. The problems spread to North America to Europe. This was globalization that contributed to the fast spread of the crisis. In this case, unlike many positive aspects, the global economy played against its ideologues and supporters. Of course, open borders for the movement of resources of all kinds is not the only reason. The reason, as it always happens in human activity, consists in miscalculations of the managers, financial and international trade experts. However, this should teach Ukrainian experts a lesson as they often blindly trust foreign experts. Foreigners are people, and to err is human, especially when they are little aware of the specific foreign markets, foreign business rules. We do not in any way question the cooperation with international financial, economic and trade organizations, we want to emphasize the need to adjust any forecasts and plans, taking into account national specificities, the

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factors that Ukrainian researchers know and sometimes feel better than the most accurate economic and mathematical models based on data and experience from other countries.

Under such circumstances, the first measures, which were used in the past crisis decades, were public financial impact – to boost the growth of the national (primarily national) economy through the implementation of the consumer market in a specific country (either the U.S. or Germany, or any other). However, now any national economy is integrated into the global world economy and pulling out an element to bail it out seems to be inefficient and not very realistic. Even a well-known government intervention in the economy both at the country level (USA), and at the level of inter-state union (EU) does not give the desired result. An individual country, even the most powerful one in economic terms, is unable to save the "whole world". And intergovernmental groups have not yet found a tool to balance the joint efforts through which they could slowly but steadily get out of the financial crisis together. The efforts are focused on the use of financial leverage, consolidation of financial resources in anti-crisis reserve funds.

However, the larger these funds are, the greater the values that assess such funds for the future become. Otherwise, the financial reserves increase and it becomes clear that they are still not sufficient.

These circumstances cause the need for the evaluation of financing and simultaneously assessing the reserves – currencies. When reserve funds increase and the desired result – recovery from the crisis (the budget deficit, the decline in production, etc.) fails, naturally there are doubts not only about the evaluation of the created reserve funds, but about the means for their formation, the reliability and capacity of a particular currency to provide the desired activity effect. There is a need to compare major world currencies to assess the most effective ones. Obviously, one of the following conclusions can lead to an offer to return to the monopoly of one currency (most likely – the dollar) to consolidate efforts of the international economic community in addressing the global crisis.

However, there are other prospects and aspirations of Russia to assert its ruble, China – its yuan. The above prospects are based on the world's leading suppliers of key resources, along with the financial self-sufficiency. There arises a conflict when the confrontation between the two major world currencies (dollar and euro) is interfered by less strong currencies, which have fully materialized natural and labour resources. Hence, purely financial issues in the global economy turn into resource problems. Raw and labour markets started to put severe pressure on financial markets, and they began doing this a long time ago. Obviously, there is nothing surprising about this, since the financial resources are needed for their purchase.

2. Risks of Ukrainian corporate sector and methods for their elimination

Analysing the problems faced by the corporate sector of Ukraine during the global crisis, we would like to emphasize the influence of Ukrainian macroeconomic data given the dependence of the local currency on the U.S. currency.

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Analysis of the 2008 crisis recovery showed that the corporate sector of the Ukrainian economy quickly adapted to unfavourable economic conditions[4]. This is especially typical for the enterprises with foreign investment. These companies not only manufacture a huge number of products consumed by the economy of Ukraine, but at the same time are large-scale consumers of raw materials and services. Given the relative economic instability, the price of these resources also varies. Therefore, continued efforts to save working capital make enterprises look for more effective ways to interact with suppliers.

The corporate sector faced the challenge of finding such management schemes that allow working in the legal field and receiving economic benefit from their implementation. An example is the introduction of new forms of interaction with suppliers. One option for this interaction is deferred payment for raw materials, work performed through secure storage agreement. This is clearly evident in the food sector. These schemes are applied by such corporations as Carlberg, Nestle, Craft foods, Coca Cola. While in the period of 2008–2010 the suppliers worked mainly on prepaid basis, in 2010–2012 they were demanding and constantly increasing the terms of payment for raw materials, spare parts, services rendered. In this situation, manufacturers are trying to put the financial risk on the shoulders of suppliers.

However, the corporate sector, which is a consumer of certain resources, faces other risks:

1. A limited number of suppliers which can meet these requirements.

2. Monopoly among the suppliers of certain types of resources. For example, Gazprom – the supplier of Russian gas to Europe almost has a monopoly in Poland and absolute monopoly in Ukraine. Not only did it dominate the western markets, it is also conquering the Eastern market, particularly in China. In other words, the monopolist of gas supply to Europe diversifies its potential users markets and thus increases the pressure on European countries, attempting to switch significant important resource flows to the east by reducing supply in the western direction. These actions of the monopoly suppliers are an important lever of influence on consumers. Indeed, the threat of loss of certain resources in the short term can develop into long-term policy and cause a lack of resources for economic growth after the recovery from the crisis of the world economy. Due to this threat, in the future, most consumers will be forced to reckon with the price policy of the suppliers and their requirements concerning the participation in the investment projects. In particular, this applies to the policy of the Russian Gazprom and the response of gas consumers.

The specified interactions between the suppliers and consumers show that in the modern global economy under certain conditions owners of natural resources and owners of financial resources began to shift places. When the monopoly owners of natural resources (such as Russia – gas and oil) and cheap labour resources (such as China) become self-sufficient in financial terms, they begin to dictate terms.

[4] *Hlobal'na finansova kryza 2008 roku*. Material z Vikipediï – vil'noï entsyklopediï. [Elektronnyy resurs]. Dostupno z: http://uk.wikipedia.org/wiki/%D0%93%D0%BB% B0_2008

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While until recently the supply of raw materials was a sign of the economic underdevelopment of the country, now this view should be questioned. We can justify that by the experience of the following countries (Africa, Asia, and Latin America) which do not have significant financial resources, and still became monopolists in certain minerals, threatening the stability of the world economy with social instability, concerns among their citizens, which may lead to increased scarcity of certain raw materials. However, any imbalance in the provision of raw materials threatens the global economy under the rule of the globalization.

40–50 years ago, destabilization in a country could only hurt this country. That is, with few exceptions, the state lost its position alone. The unrests were local. Expansion of transnational cooperation in the corporate sector led to the fact that every part of the world economy now affects the entire chain of economic relations. Positive characteristics of the global economy (free movement of goods, services, labour, capital, technology, etc. between countries) in modern terms caused some negative aspects (free movement of crisis when increased unemployment, decline in purchasing power in the retail market and thus in the wholesale market are based on domino effect). This situation in the economy leads to budget deficits, rising debt in the corporate sector and in public finances.

3. Increase in prices for goods and services.

It encourages corporate sector to adopt appropriate measures against these risks by introducing unstructured management methods for performance sustainability. This methodology is typical of large multinational corporations that go beyond a single national economy.

Risks of suppliers are shown in Figure 1.

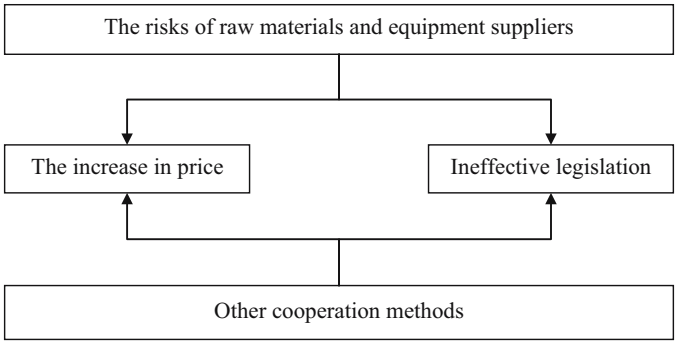


Fig. 1. Risks of suppliers in the corporate sector and ways for their elimination

Source: own design

Describing the scheme, it can be noted that the suppliers are subject to the following risks.

1. Constant increase in payment terms for the delivered goods in local currency.

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For example, when placing an order for the supply of equipment for the specific sector, manufacturing of equipment can take from 1 to 9 months if you add the payment within 60 days after the delivery (cash can arrive in the account of the supplier in 1 year after ordering equipment). The risk of exchange rate instability increases significantly within 1 year.

It is particularly dependent on fluctuations of other currencies (Swiss franc, British pound, etc.). In some cases, customers do not consider fixing the exchange rate of the euro to the Ukrainian hryvnia, explaining this by internal purchases.

Defined criterion leads to the development of a measure of value through the inclusion of a complex of interrelated indicators and characteristics that allow reversing the impact of currency inflation on the final financial results through the introduction of innovative schemes of interaction with customers. It should be noted that mostly large corporations can introduce such innovations.

2. Suppliers have to look for other forms of cooperation with customers.

The secure storage agreement is offered. This procedure makes it possible to supply spare parts and equipment at the expense of the supplier, without the withdrawal of working capital. This ensures constant maintenance of the required range. This form of cooperation is beneficial to suppliers because they can impose their conditions, connecting the business and a particular supplier.

3. The next step of the supplier is to offer additional discounts on condition of signing an exclusive agreement on the supply of some type of equipment, services and raw materials stipulating markup, payment terms and other issues.

This type of agreements is profitable for offices of foreign companies in the corporate sector. This way they improve their work in the purchase sector and develop monitoring of potential suppliers and their offers in the financial sector (financial control of purchases).

Conclusions

Summing up the review of issues of innovation structures functioning in the corporate sector of Ukraine, it is possible to single out the most significant factors that motivate their introduction. First of all it is due to all sorts of risks, both on the part of suppliers and buyers. On the one hand, manufacturers are trying to put the financial risk on the shoulders of suppliers. This forces the latter to look for methods to counteract such risks. The most common methods of risk elimination are:

– Sharing risk between the parties of the business activity;
– Risk insurance;
– Reserving funds to cover unexpected expenses;
– Neutralization of partial risks;
– Reduction of risk in terms of funding.

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Ryzyko finansowe sektora przedsiębiorstw Ukrainy we współczesnych warunkach gospodarczych

W artykule poddano analizie proces dostosowywania się ukraińskich przedsiębiorstw do niekorzystnych warunków ekonomicznych będących następstwem kryzysu finansowego. Autor opisuje metody eliminacji ryzyka, wśród których za najskuteczniejsze uznaje podział ryzyka między stronami w działalności gospodarczej, ubezpieczenie od ryzyka, tworzenie rezerw na pokrycie niespodziewanych wydatków, neutralizację częściowego ryzyka, redukcję ryzyka w zakresie finansowania. W stosowaniu powyższych metod autor widzi możliwość eliminacji zjawisk kryzysowych w skali globalnej.

Financial risks of the corporate sector of Ukraine under modern conditions

The article analyses the process of adapting of Ukrainian enterprises to unfavourable economic conditions, being the consequence of financial crisis. The author describes methods of risk elimination, among which the most efficient ones are, in his opinion: sharing risk between the parties of the business activity, risk insurance, reserving funds to cover unexpected expenses, neutralization of partial risks, reduction of risks in terms of funding. Application of the above methods makes possible the elimination of crisis phenomena on the glabal scale.