

**THE PARENT CONTROL IN THE MECHANICAL ENGINEERING
MANAGEMENT-HOLDING**

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Abstract

The group of entities under the control of parent, so called holding, is arisen as the result and the most often used form of the business concentration nowadays. The paper is focused to find special tasks of parent company for to preserve effective unified economic control in the management-holding. The unified economic control the holding exists in the conditions of the main conflict of interest - holding is not a legal but economic unit and the connected companies into it have a legal autonomy with the economic dependence. The unified economic control limits the financial independence of every individual company of the holding. The attention in the paper is concentrated to the management concept of the parent control, i.e. the parent company supervises the control of intragroup flows and all of subsidiaries production activities.

Key words

Management-holding, unified economic control, parent company, intragroup flows

Introduction

According to the conflict of the interests i.e. the holding is not a legal unit but an economic unit in which there exists an economic dependence between connected companies, takes place the unified economic control, which is in the frame of the holding necessary. This unified economic control limits the economic independence of every individual company of the economic unit, and it is in fact one of the most important attributes of the holding. There is an active and noticeable influence of the parent control on all of operations and activities of subsidiaries in the mechanical engineering management-holding. Plentiful intragroup flows are quite typical for this type of holding; their reflection is found in the consolidated financial statements.

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Expression of the economic life of the holding

More significant to the capital connection of companies is to realize intragroup relations and flows which take a place between companies of the holding. The intragroup relations and flows are a key determinant of the financial situation of all individual companies. Their targeted control contributes to the increasing of a holding's worth as a whole (1). In the management-holding is the control performed by the directive parent influence; the management of parent company operates to the subsidiaries activities very intensive. The parent company as a control top of the mechanical engineering management-holding implements many decisions, therefore the large intragroup relations and flows are in this type of the holding more than expected. An intensity of the intragroup flows is in the mechanical engineering management-holding very high, because of the high intensity of parent directives. But their character is determined by the number of individual companies of the holding as well. All intragroup flows are expressions of the life of the group. They are flowed naturally from the relationships which are arisen between connected companies. The intragroup relations and flows on the one side, give the need for the unified economic control, while on the other side, the unified economic control enables control of these relations and flows. The unified economic control by the authorities of the parent company and close cooperation between the companies is a tool of synergism and is a basic attribute of the holding. Then the mechanical engineering management-holding can reach the economic efficiency, high competitiveness, capital strength and financial stability.

Regulation of the intragroup flows in the mechanical engineering management-holding

Through the intragroup flows, the parent company can reallocate capital to the place of the most effective use. According to Šnircová (2) this is considered one of the main motives for the establishment of the holding and it is also the tool of achieving synergism in this form of business. The types of the intragroup flows of capital are contained in the Table 1. In the addition to the traditional financial intragroup flows in the mechanical engineering management-holding are widely used **the intragroup flows of the business type**; because there is most of the time the quite intensive collaboration between connected companies to the engineering management-holding. (4) Business transactions- the flows represent intragroup relations between suppliers and subscribers; the flows arise from internal operations of input purchases and output distribution between connected companies into the holding; the parent company can influence the financial results of companies connected to the holding; the parent company has a possibility to determine suppliers and subscribers of companies, prices of business transactions, a currency of business transactions, conditions of the provided credit etc. (5) Mutual collaborations- there are the technical, technological and administrative collaborations between companies connected to the holding (rent of technical devices, general and leasing charges, rent, personal rental, provision of licenses and technological procedures, etc.); the parent company can to determine a price of a rent, a technical fee, payment conditions etc. (6) Transfers of investment property- there is a cession of investment property (e.g. machines, buildings) by the form of a selling (important is the price of transaction and payment conditions) or a physical deposit as a capital share by the form of giving.

Financial type of the intragroup capital flows		Business type of intragroup capital flows
Specific flows only for the holding	General transactions between companies	General transactions between companies
(1) Transactions with the equity in the frame of the holding	(3) Internal loans between holding's companies	(4) Business transactions
(2) Movements of the capital by the way of dividends		(5) Mutual collaborations
		(6) Transfers of investment property

The aim of the unified economic control is to gain a positive financial situation for the mechanical engineering management-holding, to gain economic advantages that follow from the financial situation and to guarantee the ability to pay and profit from subsidiary companies. The financial control includes a coordination of financial resources and also allocation of them just by way of the financial control system. **Lutter** (1) defined „*the purely isolated financial control of the companies which are connected to the holding has no sense; it is neither objective nor adequate. The consolidated view of the financial situation is primary for lenders and investors, suppliers and possibly also for customers.*” Stakeholders and shareholders acquire this view through the consolidated financial statements. An aim of it is to present the financial situation and profit of the engineering management-holding as the whole group of entities under the control of the parent. The connected companies into the holding are represented then so-called consolidated unit. „*The consolidated financial statements are important documents, which are presented the results of the economic unit, e.g. which shareholders' aims were achieved and what is the financial position of holding towards stakeholders*” (3).

Directive influence of the parent company on the subsidiaries

The existence of the unified economic control is necessary because of financial companies' connection by way of capital shares, intragroup loans and intragroup changes of production. The unified economic control belongs to the tasks of parent company (4). The parent company is in accordance with “a potential conflict of interests” commissioned to the control of financial investments. The financial aim is to control the structure of capital effectively with the goal of increasing the value of the group of entities under the control of a parent as a whole (1). When the parent company is competent enough to perform all the control tasks there is the management type of control- the representative way of the control just for the group orientated to the mechanical engineering field. The parent is responsible not only main decisions, but for the operative decisions too (5). That means there is a very strong influence of the parent on all control areas of the other companies (planning, controlling, etc.) by way of the unified economic control in the mechanical engineering management-holding. The exactingness of the control is in conditions of the holding obvious what is related to the issue of intercultural management. This topic is detailed elaborated by **Cagáňová et al.** (6). Capital equipment of the holding depends heavily on the equity of the parent, because it is the sole or most important provider of capital. The parent company is conformed to the profits and financial strength of individual companies of the holding, to the ratios of the financial markets and in particular to the risk of a financing. These attributes are important factors for the potential investor, which would like to deal with financing of the holding (7). The economic life of the mechanical engineering management-holding is reflected in the

cooperation and dependence of connected companies. The company, which controls other companies through the capital deposits, has to do the financial control. The parent company has to control e.g. if the management of capital structure is really effective. This effect is shown then in the consolidated financial statements, which is created by the parent company. Šnircová (3) says that this information interests shareholders, management of subsidiary companies, and stakeholders which are in contact with at least one of the companies of within the group. The consolidated financial statements are in this case a decisive document for the parent company's management, which is responsible for the fulfillment of the shareholders' aims in the holding.

Conclusion

Despite the legal autonomy of the individual companies connected to the economic unit called holding, are these companies subordinated to the parent control. The parent company performs the unified economic control which is the main attribute of the holding. One of the most important tasks of the parent company within the unified economic control is to supervise on the financial flows between connected companies. Because of quite intensive dependence and the collaboration between the mechanical engineering management-holding's companies are most of the time used the intragroup flows of business type such as business transactions, mutual collaborations and transfers of investment property. There is obvious the directive influence of the parent company on the financial situation of the holding. The parent company within the mechanical engineering management-holding has a responsibility for all of decisions about the production and activities of subsidiaries. The main aim of the unified economic control performed just by the parent company is to gain a positive financial situation for the whole group. Important is also to reach the economic advantages that follow from the financial situation and to guarantee the ability to pay and profit from subsidiaries. The quality and the completeness of the fulfillment these objectives is reflected in the consolidated financial statements. The consolidated financial statements is represented the mechanical engineering management-holding towards stakeholders.

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