

## Artículo de investigación

**Theoretical and practical aspects of the price management within holding companies**

Теоретический и практический аспекты ценового внутрихолдингового управления

Aspectos teóricos y prácticos de la administración de precios en los holdings

Aspectos teóricos e práticos da gestão de preços em holdings

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**Natalia V. Cherner**<sup>94</sup><https://www.scopus.com/authid/detail.uri?authorId=56809303800>**Abstract**

This article presents the aspects of intercompany price management. It investigates its price management and shows pricing methods applied to intercompany level of price control. It also considers their positive and negative sides. The article shows the level of advanced management in three areas: price management, internal management and methodological management support.

**Keywords:** intercompany price management, price, price methods, management.

**Аннотация**

В статье представлены аспекты ценового внутрихолдингового управления. Исследованы проблемы ценового управления. Обоснованы методы ценообразования в применении к внутрикорпоративному уровню ценового управления, а также рассмотрены их положительные и отрицательные стороны. Статья показывает уровень продвинутой управленческой сферы в трёх направлениях: ценовое управление, внутрикорпоративное управление и методологическое обеспечение управления.

**Ключевые слова:** внутрихолдинговое ценовое управление, методы ценообразования, управление, цена.

**Resumo**

Este artigo apresenta as características da gestão de preços, holdings e investiga os problemas que podem surgir. No documento foram fundamentado, os métodos de fixação de preços na aplicação a nível intrínseco da gestão de preços e analisado seus aspectos positivos e negativos. O artigo mostra o nível de avanço na esfera da administração em três direções: a gestão de preços, da gestão interna e a gestão metodológica.

**Palavras-chave:** gestão, gestão de preços entre empresas, métodos de preços, preços.

**Resumen**

Este artículo presenta las características de la gestión de precios en los holdings e investiga los problemas que pueden surgir. En el documento se han fundamentado los métodos de fijación de precios en la aplicación a nivel intrínseco de la gestión de precios y se han examinado sus aspectos positivos y negativos. El artículo muestra el nivel de avance de la esfera de administración en tres direcciones: la gestión de precios, la gestión interna y la gestión metodológica.

**Palabras clave:** gestión, gestión de precios entre empresas, métodos de precios, precios.

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## Introduction

In the formation of a specialized management methodology of intercompany price management we should assess how it is possible to use the baggage of theoretical research and accumulated experience, implemented in the daily activities of administrative personnel.

This applicability can be direct and also may be associated with some modifications of varying degrees of depth of scientific and design prototypes.

According to the thematic focus of this study we should consider the level of advanced management in three areas of retrospective analysis:

- price management;
- internal management;
- methodological management support.

An indispensable component of the process of price intercompany management is the formation of optimal prices for the entire holding for purchased and supplied commodity products in direct form or through disciplining regulations. The pricing methods themselves are a group of specialized components of the organizational and economic mechanism, regulation of price management.

Certainly, the mechanism of the free corporate pricing formally excludes methods of internal pricing, but, however, it transfers the intercompany pricing to the level of corporate governance, also moving their methods of intercompany pricing and giving to them the nature of the methods of intercompany pricing.

## Methodology

The methodology is a general representation of operation regularities in relation to some selected object in the context of the selected processes related to it, which takes place in it or influences it.

That is, the methodology of management of some object is a general natural representation of the management system and management processes associated with it for the entire life cycle of this management system in terms of general patterns of occurrence, existence (functioning and development) and termination of this management system.

The methodology of specialized management is proposed to be understood as the methodology of management of some specific, objectively and subject-localized management object, and, possibly, in some special conditions of its existence (for example, in case of a certain nature of the influence of the external environment, for a certain stage of the life cycle of the management system, etc.).

The sequence of localization of methodology interpretation corresponds to the following sequential concretization:

- methodology of operation (functioning and development);
- management methodology;
- methodology of intra-holding management;
- methodology of intra-holding price management.

It should be noted that the given sequence of localization is not rigid: it is more likely to be the most convenient for perception (first objects after the selection of the type of methodology and then subject areas).

Correspondingly, the methodology of intra-corporate price management by the Russian high-tech industrial holding in relation to the manufactured commodity products seems to be correct to interpret as a general, logical representation of intercompany management systems (management objects and control systems) in the aspect of a certain type of management decisions (in this case, generalized price management decisions). That is, it is a conceptual, scientific and design solution in terms of the architecture of the control system and, possibly, the control system as a whole. In the latter case, the methodology can be applied to the area of fundamental transformation of the control object itself.

This logical representation concerns both the selected control systems and the process of their functioning, i.e. control systems considered in dynamics. That is, this methodology is generally a conceptual description of the vision of a complex of mesolevel and group of micro-level control systems.

It should be noted that the introduced definitions correspond to those that are introduced by normative-methodical regulations. When developing and implementing the profile

methodology (the methodology of internal corporate price management of the Russian high-tech industrial holding company in relation to the manufactured commercial products) it is necessary to comply with a set of requirements to this methodology. Accordingly, these requirements should first be formulated, then ensured and, at the final stage, the characteristics of the synthesized methodology for compliance should be checked with the requirements introduced.

These requirements should concern both the process of methodology formation and the content of the profile methodology itself. In this case, it is quite possible that an unacceptable part of the requirements can be singled out - i.e., in some way, "prohibitions of prohibition" or "restrictions on restrictions".

The lack of methodology will again lead to a catastrophe of the error of profile management, because the scientific methodology will be replaced by some conceptual empiricism of designers and management personnel. If the methodology does appear to have excellent characteristics, it may turn out that its formation has generated an unacceptable investment burden on the enterprises members of the holding company or other person who financed the project.

Thus, classical errors of methodological "undesigning" and "super-designing" ("redesigning") can be generated and used in the so-called reusing-projects.

To assess the quality of the profile methodology, two conceptual schemes with distinguished scientific and project stages can be applied:

- when the first scheme is applied, the creation of a profile methodology is implemented. After that, it is applied the formation of some requirements to it, the evaluation of its characteristics in the context of these requirements, the comparison of its evaluated characteristics to these requirements and, finally, the conclusion about the suitability or unsuitability of the methodology;

- when the second scheme is applied, the requirements to the profile methodology are formed, then the creation of this methodology, the evaluation of its characteristics in the context of these requirements, the comparison of its evaluated characteristics with these requirements and, finally, the conclusion about the suitability or unsuitability of the methodology.

## Literature review

Let's try to analyze the global reflection of the already achieved results in the field of price management obtained earlier.

Internet resource on the web page [www.rsl.ru](http://www.rsl.ru) (Russian state library – RSL, April 23, 2019) shows a rather non-trivial phenomenon: there are few officially registered publications in the form of books and dissertations on the subject of "price management". That is, for the entire Soviet and Russian periods there were no available open publications, although, perhaps, some publications were not mentioned in the catalog of RSL for technical reasons. At the same time, it is rather impossible to imagine that absolutely all thematically publications had secret materials or fell out of the scientific turnover.

An attempt to do a similar search operation on the website [www.loc.gov](http://www.loc.gov) on the same date April, 23 2019, with the keywords "price management" shows a better situation. There are 14 external-profile sources (Danilochkina, 2007). However, some of them are available in not so common languages (e.g. Vietnamese and Polish). Others are not related to high-tech production but to financial operations and agricultural production. Therefore, it seems legitimate that the direction of price management is not studied abroad and there is no tendency in its active development. In addition, the conditions of price management abroad and in modern Russia are quite different (Moyer & Wittmann, 2008). As a result, we get about 3-5 publications in terms of the entire modern history of scientific research, but they appeared not recently. This result does not allow us to state the presence of scientific activity in the field of price management. The problem of price management at the level of corporate groups in the titles of these publications is not affected at all (Simon, 2018).

Today in the Russian economy the intercompany and, accordingly, intercompany pricing is not established, not developed and almost not yet included in the daily management of everyday use.

Therefore, in modern domestic conditions there are two conceptual directions of internal price management:

- transfer, even with local modifications, of conceptual and instrumental nature of the known methods of intercompany pricing;

- stereotypes of strong-willed management, characteristic of the initial stages of market reorientation of the economy.

### Results and discussions

Now we are going to consider the content of the relevant pricing methods.

Currently, the following methods of intercompany pricing are implicitly or explicitly transferred to the corporate level in Russia:

- method for calculation of pricing. This method provides the calculation of the actual or expected cost of commodity products individual for each producer, in accordance with a fixed set of items (components) of the cost and the rules of its calculation with the setting of a fixed rate of return of products and the subsequent calculation of the price, conditionally including the value of cost, notional profit, tax, excise and duty charges. This method is expensive, and its productivity in terms of the development of market mechanisms is negligible, especially the mechanism of competition (Hayes, Miller, 2011);
- method of limit pricing. The price of supply of the relevant commodity products is determined by the marginal costs which may be incurred by the customer of this products to make the delivery not so unprofitable to them, or he had the means to pay for it considering feasible external borrowing. This method has the same organic defects as the previous one, and therefore its use is impractical;
- the method of analog pricing (pricing by analogues), according to which the price terms of the supply contract are defined as a weighted similarity (linear combination) of the prices of commodity products-analogues. In this case, it is not necessary to use reference or base prices of the same products for which the delivery price is assigned, it is necessary to use the price of substituted products. The parameters of the calculated linear combination are estimated either heuristically, on the basis of expert methods, or restored using a retrospective approximation on the information basis of the price conditions of the actually executed supply contracts. A special case of the method of analog pricing is the method of competitive price domination, involving the establishment

of a price slightly lower than the minimum price of commodity producers-competitors (Hassard, McCann & Morris, 2009);

- a method of compromise pricing provides for such price consideration of the interests of the parties to the supply contract of specialized commodity products, which would provide acceptable and in some sense parity levels of economic effects or efficiency of the parties from the execution of it. This method is the most correct, but it allows you to find the best price solution only for the parties to the supply contract of commodity products in the monodiade "supplier - customer", ignoring the indirect impact of the execution of the supply contract on the state of other enterprises-members of the corporation;
- auction pricing method, which has several forms. It is from a scientific point of view conceptually flawed, because it directly provides for the rejection of scientific pricing and reduction of pricing to some competitive victory in a frenetic game situation (Mottaeva, Shlafman & Demicheva, 2011).

Recently in Russia the method of pricing based on separation of the enterprises-members of corporation on profit centers and the centers of expenses has become widespread enough. In the context of such representation, for institutionally dependent (through the system of participations) enterprises on the part of the structuralizing (holding) enterprise or other person representing the interests of this structuralizing enterprise, we assign the prices to ensure the practical non-profit and in fact the pre-bankruptcy status of all enterprises-members of the corporation, except one that concentrates the bulk of profits and it is in the zone of the greatest tax favor, for example, in the off-shore zone. At the same time, it is possible to use the method of compromise consistent dichotomous pricing, where in each of the bilateral supply contracts one of the enterprises, which is not the center of profit, it is forced to accept a price compromise, implying that they receive income that does not lead to its loss and financial insolvency yet (Novikov, 2019).

A special form of pricing is the use of the organizational and economic mechanism of the simple partnership agreement, where the method of supply pricing is significantly transformed or sometimes disappears. However, due to the extremely weak legal regulation of the scheme of

a simple partnership and obvious ambiguities in its consistency with the tax legislation, such pricing methods have not received any noticeable distribution and are unlikely to receive in the foreseeable future.

It should be noted that the pricing methods with the scheme of profit and cost centers and the contract scheme of a simple partnership are difficult to distinguish from the organizational and economic mechanism for regulating this kind of pricing.

Along with these, within the corporation, in some cases, we use other pricing methods. For example, typical for the period of initial capital accumulation, including based on the personal interest of the directorates, providing for random pricing or indirect unique ("personal union" what means what it is based on personal ties) subsidizing and subvention, as well as some others.

The principal disadvantages of the above methods of pricing applied to the internal level of management are:

- predominantly unilateral nature (exclusive consideration of the interests of one of the parties to the supply contract or one enterprise) and the dominant focus on the non-market scheme of economic organization;
- artificially localized character, which does not provide for a comprehensive optimization of the price terms of the package of contracts, including with the participation of various enterprises also at least in the short term, as well as the fundamental impossibility of solving the management problem for corporate group of enterprises;
- lack of legally correct regulations for the internal corporate level, as Russian civil law prohibits the restriction of contractual freedoms, including self-limitation;
- rejection of the use of high organizational, economic and information management technologies, which does not allow to achieve acceptable accuracy and reactivity characteristics of the processes of development of price management decisions.

In general, the well-known pricing methods:

- are not based on any correct or at least suitable for perception of the formulated methodology, and the glossary device

which is not relating to problem area and directly contradicting the Russian legislation is widely used. In particular, the term "value" and "contract value" is commonly used;

- are not full-fledged management methods, they provide for the implementation of disparate sporadic management operations;
- at least partially applicable in solving problems of optimal pricing for localized corporate affiliation groups of active systems, as provide for the formation of a two-object system with the mandatory giving one of the objects – parties to the contract obviously active, and the second – obviously passive;
- do not provide in-depth feasibility studies using intelligent systems to support management decisions.

Now we consider the situation with the starting baggage looks. It is also very unfavorable.

The website [www.rsl.ru](http://www.rsl.ru) (November, 11 2018) allows us to identify the keyword "holding management" only in one thesis from a lot of time ago. There are no reflected monographs on this subject. The situation is more optimistic with the keyword "corporate governance". There are 66 sources. However, many of them are textbooks of rather limited volume.

The analysis showed that the most advanced publication in this regard is the source, which deals with the most important aspects of both the external management of the corporate group and its self-government. Therefore, some conceptual and implementation ideas of this study were considered portable in an adapted form in relation to the problems considered in the framework of the research (Novikov, 2019).

In practical corporate management and, in particular, holding company's management, in Russia the prevailing methods are the methods of intuitive-experiential control with ill-concealed administrative basis.

There are no descriptions of foreign experience of intercompany management in the scientific form of submission of material in available sources.

An attempt to do a similar search operation on the website [www.loc.gov](http://www.loc.gov) on the same date with the keywords "holding management" gave a surprising result: there are no sources with it.

There are only five sources with the keyword "corporation management", but they do not contain materials on the expected problems (Smith, 2016).

In some countries, including Russia, there is a cognitive conceptual price dissonance. On the one hand, the Civil Code of the Russian Federation introduces unconditional freedom of price terms and conditions of the contract, and, on the other hand, tax regulations on prices for affiliated entities such as corporate groups actually prohibit more than 20-25% deviations from the established market prices. How to identify goods similar in terms of prices, tax regulations do not correctly define them and cannot do it because it is a subject of in-depth feasibility study in each specific management situation. In Russia, the so-called "costly" method of pricing dominates, which provides for the calculation of costs, desired profits and turnover taxes such as value added tax. In many other countries other methods of pricing are also widely used, which are much more developed. Therefore, the "fair" Russian price may differ fundamentally from the "fair" non-Russian commodity price. There is also a discrepancy between the primary (initial) data used to justify the price of commodity products. These data can be extracted from different sources, have different structure, different degree of involuntary or deliberate distortion, be multiple, etc. There is also a requirement or non-obligation of price coordination with the public administration if, for example, the commodity somehow correlated with the performance of a government contract and the presence of a kind of "double" price for domestic and external, international supplies. Of course, this list of price transfer complications is far from complete and can be easily expanded. However, even the above-mentioned shows that pricing in the case of multi-country deployment of enterprises-members of the corporate grouping generates serious managerial problems in the application of classical approaches. Thus, when managing the price of a transnational corporate grouping, including a transnational holding with the involvement of Russian enterprises, should be considered (Gurkov, 2008):

- the heterogeneity of pricing environment for various enterprises-members of the corporate grouping, including in terms of price structuring;
- the mandatory price transformations in case of cross-border movement of goods (by structure and size).

However, it should be understood that the prices of the supplied goods and the prices of the received goods cannot but coincide quantitatively, because the contractual price as a value characteristic of compensation cannot be ambiguous.

At first glance, these complications seem to be very serious and, perhaps, even insurmountable. In fact, solving several tasks of optimization of prices for commodity products of cooperatively connected and separately positioned enterprises-members of the holding, located in different countries, it is most likely possible, albeit with difficulties, to get local optimal price management decisions, which, however, will not be able to be joined together. This is a rather clear demonstration of the well-known assumption that, in general, the local optimization of the subsystem cannot lead to finding the optimum for the system as a whole.

Therefore, it would be reasonable not to search for the optimal price transfer during import and export operations of the holding companies, but to find prices for commodity products circulating within the holding company, which are expedient in terms of the interests of the entire holding as a mesolevel separation. Thus, the problem of transfer is solved by simply excluding the management category of "price transfer".

## Conclusion

In view of the above considerations, it seems reasonable to draw the following conclusions:

- corporatization of Russian industrial enterprises, as well as their incorporation into the global economy, is a natural process that is observed in practice and will be indispensable in the future;
- holding companies and their counterparties as a common phenomenon are located in several countries, including those with different subculture of pricing and different tax conditions. Cross-border movement of goods can be accompanied by serious fiscal and pseudo-fiscal burdens, and can also lead to contradictions with national and international legal regulations;
- the multi-country deployment of the holding company's member companies creates difficult or insurmountable difficulties related to the transfer of price terms of supply contracts;
- when pricing in this area, it is advisable to move from a public law scheme to a

private law system, carrying out pricing for each specific contract of delivery of goods;

- anachronisms of cost pricing, which are inherent in a significant (if not the majority) number of Russian enterprises, should be abandoned;
- it is proposed to solve the problem of cross-border transfer of prices for goods in case of intercompany deliveries by radically abandoning the concept of price transfer and moving to the optimal price management of the holding company based on their mesolevel structures of such management, including target-setting.

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