

Conceptual Bases of Corporate Integrated Structures Formation

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Abstract. The current stage of development of the institutional structure of the world and national economies is characterised by a permanent strengthening of integration tendencies, the essence of which is in the desire of business entities to establish long-lasting relations in all spheres of activity. One of the results of such integration processes is the enhancement of the role and scope of activities of integrated corporate structures. Therefore, the purpose of the article is to explore the conceptual foundations of corporate integrated structures formation. Achieving this goal is based on methods of analysis and synthesis, induction and deduction. The article examines the essence of integrated corporate structures, the prerequisites for their emergence, as well as the key motives for enterprise integration. The necessity to make decisions regarding the formation of integrated corporate structures on system-synergistic basis, aimed at improving management systems as well as improving information systems in the management sphere, has been determined. The main features of integrated corporate structures have been identified. Systematisation of forms of corporate integration within horizontal and vertical types has been considered. Considering the participation in the corporate structures of enterprises of different fields of activity, to successfully manage them, it is necessary to identify the features of formation of corporate structures depending on the characteristics of economic activity and ensure a permanent flow of information from subsidiaries to the central company or from subsidiaries to the main enterprise considering regulatory and legislative regulation. The results of the study allow deepening the understanding of the theoretical aspects of the formation of integrated forms of enterprise and can be used in substantiating the directions of enterprise consolidation in the conditions of foreign trade liberalisation and strengthening of competition in the world market of goods and services

Keywords: integration, synergism, integrated corporate structure, competition, international competitiveness

The Problem Statement

Ensuring balanced social and economic development of Ukraine requires existence in the real sector of the economy of such structures, that would contribute to the formation of market mechanisms of management, development of economic competition, increase in production efficiency, increase in investment volumes and innovative potentials. The modern historical stage of the evolution of the economic sphere of life, covering the past and the beginning of the 21st century, is characterised by the process of emergence of new and wide differentiation of types of

economic entities. In particular, in scientific economic literature such new organisational economic structures as corporation, trust, concern, multinational corporation, holding, financial and industrial groups, cartel, syndicate, consortium, cluster, strategic alliance, virtual corporation etc. are identified. Research on the potential of integrated business structures in Ukraine is relevant in the context of competitiveness of the national economy, modernisation, and development of basic industries, raising social standards and the level of well-being of citizens.

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Analysis of Recent Research and Publications

Leading developers of the concept of integrated corporate structures, both in terms of scale and depth of study of the new business structures emergence, are presented in works of E. Toffler [1], A. Thomson [2], A. Kushneruk [3], L. Holovkova [4], L. Fedulova [5], Yu. Umantsiv [6; 7], T. Kalchenko, V. Yurchenko [8] etc. At the same time, issues concerning the conceptual approaches of integrated corporate networks formation on system-synergistic basis, aimed at improving the management systems by developing and making more informed management decisions, improving information systems in the management sphere remain insufficiently researched.

Setting the Objectives

The aim of the article is to explore the conceptual foundations of corporate integrated structures formation. Achieving this goal is based on methods of analysis and synthesis, induction and deduction, based on a comprehensive approach to the consideration of the categorical apparatus in the context of the study object.

Results and Discussion

One of the main trends characterising the world economy at the present stage of development is its globalisation. At the same time, interstate and intercompany competition for economic resources and sales markets is increasing, and the interstate unions of related countries are being phased in to create global advantages over common competitors in the world market. Integration processes at the regional and interstate levels are gradually leading to a weakening of the importance of individual national economies. On the other hand, globalisation leads to appearance of new strategic approaches in many sectors.

At the same time, integration in economic activity at the company level receives a powerful impetus for development: an ever-increasing level of international competition is forcing companies to seek ways to combine potentials and cooperation in the struggle for survival, or for market leadership. Establishing business partnerships between companies from different countries and creating corporate structures of varying degrees of integration is one of the most common organisational strategies in recent decades.

Often, companies create one or another interaction mechanism that allows them to maintain the status of a legal entity and at the same time cooperate with other enterprises. In this context, a fundamentally new type of companies arises – more precisely, this is not about individual enterprises, but about associations of legal entities.

Until now, there is no universally accepted term for such associations – the concepts used in the literature are: “integrated corporate structure”, “connected diversified system”, “interglomerate”, “integrated business group” and also “metacorporation”.

An integrated business group is understood as a set of enterprises and organisations, the coordination of which goes beyond the scope of ordinary contracts and occurs

while maintaining the status of partners in the group as separate economic entities, while at the same time identifying the central element that performs the coordination functions. Enterprises included in the integrated business group retain legal independence, but lose economic independence. Integrated business groups include all associations of holding-type enterprises: vertically and horizontally integrated, mixed and diversified [7].

Regarding the definition of metacorporation, the most comprehensive is the concept of three criteria for an integrated corporate structure, formulated by J. Pappe, according to which the metacorporation is “...a combination of several economic agents (legal entities, as well as organisations that are not legal entities), satisfying the following requirements” [7].

1. At least part of the economic agents are commercial organisations operating with a view to profit;
2. Between agents, there are stable relationships that are more stringent than market ones;
3. There is a strategic decision-making centre, which can be either a legal entity or a group of individuals – owners and top managers; this centre is called the central element.

Thus, an integrated corporate structure (ICS) is considered as a combination of business entities of production, financial, credit, trade, scientific, technical and other profiles based on the consolidation of assets, primarily in the form of shareholders or on the basis of contractual relations, to achieve common economic goals (i.e., not so much as a separate company, but as system of interaction between business entities). A prerequisite for the creation or reform of such structures is the development of organisational projects containing evidence of the synergistic effect of future joint activities of business entities intending to unite.

In the world practice, various types of integration of firms have developed, which vary depending on the goals of cooperation, the nature of economic relations between their participants, and the degree of independence of enterprises included in the association.

The purpose of creating ICS is:

- 1) improving the efficiency of production and economic activities, minimising production and transaction costs;
- 2) the growth of capitalisation of the company due to the combination of assets of several organisations;
- 3) creation of optimal technological and cooperation ties, freedom of maneuver by resources;
- 4) increasing export potential and penetration into the international market and consolidating on it;
- 5) acceleration of scientific and technological developments and their implementation in production (innovation);
- 6) improving investment attractiveness due to increased financial stability, attracting investment.

Thus, the economic prerequisite for ICS is the desire to increase the competitiveness of participants (units included in ICS) by combining their assets (tangible, intangible and financial) [7].

The peculiarities of integrated corporate structures include:

- a wide range of activities carried out by different legal entities, that require coordination in accordance with the target guidelines of the members of the association;
- the intertwining of economic interests of various corporate structures, the organisation of viral and specialised functions of corporate governance, and the necessary additional knowledge of the scale and complexity of the problems and the degree of coordination of problems;
- the flexibility and mobility of corporate structures, as well as the degree, depth, and nature of the connections between participants;
- orientation of integration interaction participants on

achieving the synergetic effect as a guarantor of expediency of every participant in joint activity;

- the complexity of corporate governance due to the need for accounting, reconciliation and implementation of conflicting interests of the corporate structure, as well as opacity of manager and owner relationships;
- the presence in the corporate structures, along with the parent companies of other “profit centres”, which significantly affect the processes and results of corporate interaction.

The literature shows, that there is a wide range of types of corporate structures. One of the most widely used classifications is by the property-based associations and by contractual forms of associations (Table 1).

Table 1. The main types of corporate structures

Types	Characteristic
Property-based associations	
Holding	A group of companies where the management or parent company owns controlling stakes in other companies and performs controlling functions related to them. Subsidiaries carry out independent business activities. The parent company in most cases does not conduct its own business activities; it exercises ownership and disposal rights for shares. Holding advantages: simultaneous consolidation of financial resources; concentration of research activities in the parent company; free, operational management of companies in the field. A distinction is made between a pure holding (performing only financial and controlling functions) and mixed (the above functions and independent participation in business)
Conglomerate	An association for the production of technologically unrelated products, the so-called closed capital market, within which the money from diversified activities is concentrated. Properties: wide decentralisation of management: the responsibility for making decisions and ensuring profitability lies on the branches themselves; senior management focuses on strategic decisions and does not engage in ongoing planning; conglomerates are formed by the absorption by a large company of several dozen small and medium-sized firms of various industries and fields of activity that do not have production, marketing, or other functional ties between themselves
Concern	A long-term consolidation of companies related by common interests, contracts, capital, participation in joint activities, where the parent company most often is the production company, which holds controlling stakes in subsidiaries. Properties of the concern: centralisation of operational management; orientation on a long period of operation
Trust	An association in which its member companies merge into a single production complex and lose their legal, industrial and commercial independence. All merged companies are subordinate to one parent company. The total profit of the trust is distributed in accordance with the equity participation of individual companies. The toughest of all forms of association considered
Consortium	A temporary union of independent companies, the purpose of which is the different types of their coordinated entrepreneurial activities. The organisation of the consortium is formalised by agreement. This form of association is convenient for the joint struggle to receive large orders or projects and their joint implementation. Advantages: the urgency of the association (for a specified period); the companies included in the consortium fully retain their legal and economic independence, except for the part that is associated with the achievement of the objectives of the consortium; companies can simultaneously enter into several consortiums, as they can simultaneously participate in the implementation of several projects. Disadvantage: companies do not integrate, but only pool resources, and therefore there are fewer opportunities for mutual control
Cartel	The combination of companies of the same industry, which enter into an agreement with each other regarding various aspects of commercial activity, a form of conspiracy of a group of manufacturers in order to completely or partially eliminate competition between them and obtain monopolistically high profits. A cartel agreement has a direct relationship: with the characteristics of the product, with the degree of concentration of production, with market conditions. The following features are characteristic of the cartel: the contractual nature of the association; preservation of ownership rights of cartel participants in their companies; a combination of companies in the same industry; joint activities for the sale of products, in some cases extended to the production of products; the existence of a coercive system, including the identification of violations and sanctions against violators
Pool	A temporary association of companies in which the profits of all participants in the pool go to a common fund, and then are distributed between them according to a predetermined proportion. It is a kind of cartel
Strategic alliance	An agreement on cooperation of several independent companies to achieve a specific commercial goal and to obtain a synergistic effect from combining mutually complementary strategic resources of companies. Properties: it is not an independent legal entity; it is created for the implementation of large investment projects; the possibilities of coordination of the alliance members and the degree of mutual control are reduced, since a system of participation in a capital is not created

Table 1, Continued

Syndicate	An association of homogeneous industrial companies created with the aim of marketing products through a common sales office. Properties: participants retain legal and industrial independence, but are limited commercially; the products of the syndicate participants are sold centrally through a single sales agency, which is either re-created or its functions can be assigned to one of the participants; depending on the terms of the agreement, not all, but only a certain part of the products of the syndicate participants may be sold through a single body
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Source: conducted by the authors on the basis of [9-12]

In the context of corporate integration, it is also worth mentioning such a process, as mergers and acquisitions (M&A) [13]. They are implemented through horizontal, vertical integration and diversification. Horizontal integration is accompanied by the acquisition by a firm of other firms engaged in the same business. A kind of horizontal integration is diversification, which means associations

of firms whose technological processes are in no way related. Vertical integration – combining firms that are engaged in several stages of the production process, from production to sale of products.

Statistics show the high increase in a number of M&A transactions in 1985-2019. In 2019, the total amount was 49.8 ths. deals (Fig. 1) [14].

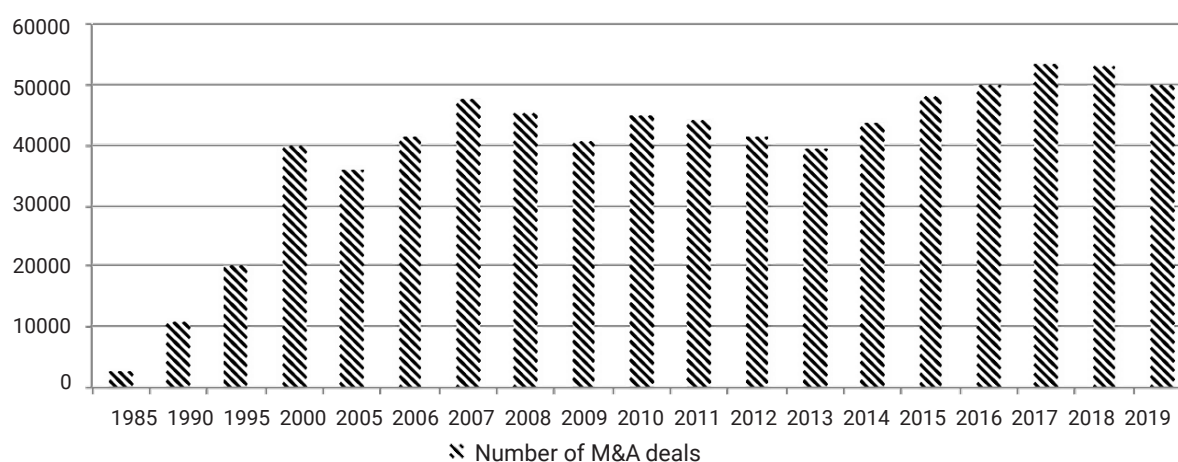


Figure 1. Number of merger and acquisition transactions worldwide in 1989-2019

Source: conducted by the authors on the basis of [14]

Among M&A trends, the deal makers predict for 2020 the following [14]:

- divestitures remain popular for corporates: 75% of corporate respondents expect to pursue divestitures in 2020, the second-highest level in the past four years. Change in strategy, financing needs, and divesting in technology that no longer fits with the emerging business model were cited as the most important reasons for divesting a business among corporate respondents.
- data protection and related regulations, along with shareholder activism, are among emerging M&A trends driving strategy and activity. We're also seeing active board involvement as directors track whether deals are meeting expectations;
- deal makers expect to increasingly focus on national transactions in reaction to persistent concerns about political and trade instability;
- despite general optimism for M&A in the year ahead, challenges remain as deal makers faced diminishing ROI on transactions over the last few years. Of all deal makers, 46% say that less than half of their transactions over the last two years have generated the expected value or return on investment.

The competitive dynamics observed in rapidly evolving sectors, such as high technology, consumer services and online retail, have been increasingly challenging the

work of competition authorities all around the world. Unlike traditional industries, that suffer little changes over time (e.g., extraction of natural resources or production of raw materials), dynamic sectors are characterized by higher entry and exit rates, as well as continuous processes of innovation that systematically disrupt existing business models and create entirely new markets. In such a dynamic environment, it is very difficult to make effects-based predictions to support enforcement decisions, especially when such actions require a case-by-case analysis of the facts at hand [4, p. 65].

Development of corporate structures, identification of their importance, advantages as the main subject of the market, the role for the development of the national economy and the economies of individual regions still need a thorough reflection [15, p. 230; 16]. Thus, the constant evolutionary changes in corporate structures in both current advanced market and transition economies through consolidation of equity in large corporations is a natural phenomenon. It became its objective basis complex of technological chains of production, due to the processes of deepening the division of labor and globalisation of the world economy, which requires the implementation at the microeconomic level not only of standard functions of production, but also research and development, as well as marketing in the relevant field.

Conclusions

World experience of economic development shows, that the sources of concentration of production are the following processes: integration of industries and enterprises, production diversification, merging of individual small and medium-sized organisations into one large. The main requirement of a market economy is progressive transformations associated with large-scale restructuring of the production process, which accelerate scientific and technological progress, increase the export potential and competitiveness of products, and form rational technological and cooperative ties.

In the current development of market relations companies, especially in important sectors of the economy, are actively using mechanisms of integration and pooling capital to strengthen market positions, increase business

efficiency and eliminate competitors. Integration of enterprises is the main factor in the development of the modern economy. It is due to the desire to obtain from the functioning of the integrated group of enterprises a combined result that will exceed the sum of the results of individual enterprises before their union. In general, in current situation there is a certain tendency of structuring of large businesses and the redistribution of property. It can be predicted, that this process will continue in the future as market economy implies a constant struggle for dominance in a particular area of the economy.

Prospects for further research include the need to identify the sectoral determinants of the integrated corporate networks formation in Ukraine.

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Концептуальні засади формування корпоративних інтегрованих структур

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Анотація. Сучасний етап розвитку інституціональної структури світової та національної економік характеризується перманентним посиленням інтеграційних тенденцій, сутність яких полягає у прагненні суб'єктів господарювання до встановлення довготривалих зв'язків у всіх сферах діяльності. Одним із результатів таких інтеграційних процесів є посилення ролі та масштабів діяльності інтегрованих корпоративних структур. Метою статті є дослідження концептуальних засад формування корпоративних інтегрованих структур. Використовуються метод аналізу та синтезу, індукції та дедукції. У статті досліджено сутність інтегрованих корпоративних структур, передумови їх виникнення, а також ключові мотиви інтеграції підприємств. Визначено необхідність прийняття рішень у частині формування інтегрованих корпоративних структур на системно-синергічних засадах, спрямованих як на удосконалення систем управління, так і покращення систем інформаційного забезпечення в управлінській сфері. Ідентифіковано основні характерні риси інтегрованих корпоративних структур. Розглянуто систематизацію форм корпоративної інтеграції у розрізі горизонтальної та вертикальної форм. З огляду на входження до складу корпоративних структур підприємств різних сфер діяльності, з метою успішного управління ними виникає необхідність в ідентифікації особливостей формування корпоративних структур залежно від особливостей господарської діяльності та забезпечення перманентного надходження інформації від дочірніх підприємств в центральну компанію або від дочірніх підприємств до головного підприємства з урахуванням нормативно-правового та законодавчого регулювання. Результати дослідження дозволяють поглибити розуміння теоретичних аспектів формування інтегрованих форм організації підприємства і можуть бути використані при обґрунтуванні напрямів консолідації підприємств в умовах зовнішньоторгівельної лібералізації та посилення конкурентної боротьби на світовому ринку товарів і послуг

Ключові слова: інтеграція, синергізм, інтегрована корпоративна структура, конкуренція, міжнародна конкурентоспроможність