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**INFLUENCE OF CONCENTRATION AND CENTRALIZATION OF  
CAPITAL ON COMPETITIVENESS OF CREDIT  
ORGANIZATIONS**

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**Abstract**

The competitiveness of any country is an integral indicator of the level of its development, and it reflects the degree of maturity of market relations. In the framework of our time, the priority is given to such companies that can conduct their competition policy on a global scale. To date, speaking about the methods of carrying out competition, the Russian market has managed to master only price competition. But at the same time, Russia has tremendous opportunities for development in the economic sphere and to take a worthy position in the world market. The improvement of the national economy, as well as the competitiveness of domestic companies, is in the process of consolidating and stabilizing the market mechanism. Centralization is one of the ways to solve this problem. This process is most often carried out in such related forms as mergers and acquisitions of companies. In the modern economy, such a strategy is used by many companies, both successful and not very successful. Companies, expanding their capabilities, follow the path of diversification and restructuring, while constantly adapting to unstable conditions. Based on the established point of view, larger and more developed companies are much easier to compete with transnational corporations, relatively small companies. Indeed, after the implementation of a merger or acquisition, the company acquires certain advantages over competitors in the market and takes a leading position, in other words, goes to a new level. However, empirical evidence suggests that successful M&A deals are far less common than unsuccessful ones.

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## **1. Introduction**

The ongoing processes of centralization and concentration of capital in the banking services market are characterized by ambiguous consequences. On the one hand, the growth in capitalization of large players significantly affects their position in the market, contributing to an increase in their client base, as well as building up intellectual capital (Wang et al., 2020). On the other hand, intensified processes of mergers and acquisitions lead to an increase in monopolistic tendencies in the banking market, which negatively affects the regional network of credit institutions and the ability of business entities to gain access to the necessary funding (Maslennikov, 2012).

Many scholars of economists studied centralization and concentration of capital (many studies are devoted to the effectiveness of mergers and acquisitions (Brancaccio et al., 2018). However, there are still unstudied consequences of these processes, especially in the banking segment. The study of the influence of concentration and centralization of capital is necessary to determine the development of competition in the banking sector.

## **2. Problem Statement**

Analysis of works devoted to the issues of centralization and concentration of capital allows us to conclude that interest in this issue is growing. The growing processes of capital concentration in various segments requires a deep theoretical and methodological study of both the mechanism of mergers and acquisitions of companies and the consequences of these processes (Zhang et al., 2020). The growth in capitalization of credit institutions in the banking segment has a dual character, since various exogenous and endogenous factors determine contradictory consequences of capital concentration in the banking sector. A specific feature of the Russian banking segment is the presence of large players with a significant share of government participation. Such credit institutions hold a monopoly position in the market, which limits the development opportunities for smaller, usually regional, commercial banks (Ageeva & Mishura, 2019).

The provision that centralization of capital enhances the competitive advantages of economic entities is also debatable. On the one hand, of course, capitalization of a credit institution creates the imperative of strategic development, including through expansion, on the other hand, in the long term, such companies may face several restrictions, for example, when a new strong player appears, which the organization will not be able to compete with (Boddy, 2018). Despite the growth in funding, large credit institutions can abuse the increased income, not always pursuing a flexible and effective client policy. In addition, the existing deposit insurance system stipulates some dependence of credit institutions, which are charged with the obligation to reorganize and rehabilitate troubled commercial banks. Substantial support of the above funds from the budget only contributes to an increase in credit institutions with state participation, which leads to an increase in monopolistic tendencies (Velić et al., 2018).

## **3. Research Questions**

The problem outlined earlier requires the implementation of a well-thought-out theoretical study with clearly defined and structured stages and tasks. First, it is necessary to identify and classify the main

forms and types of capital centralization, to show their features in the Russian economy. In addition, special attention should be paid to the analysis and assessment of the banking sector in modern conditions, showing its structure, dynamics of development trends. The practical part of the study is aimed, firstly, at the selection of key players whose data will be analyzed, and secondly, the study of financial indicators after the processes of mergers and acquisitions. Another important stage in the study of the problem is to identify methods of state regulation of credit institutions, as well as to identify the most effective of them. This situation is of great interest for economics, since, on the one hand, most of transactions do not have a significant result and do not achieve the goals that were the basis of the transaction, on the other hand, the tendency to conclude such transactions does not slow down, but on the contrary, the processes of mergers and acquisitions are carried out quite actively. The influence of mergers and acquisitions, both on the economy of individual countries and on the world economy, is ambiguous. This fact that gives rise for regulation of these operations by the state, which is primarily associated with antimonopoly regulation. The experience of countries with market economies shows that centralization is cyclical in nature. In some period, there is an increase in completed mergers and acquisitions, and somewhere on the contrary, the execution of such transactions is reduced to a minimum. The current wave of centralization of capital is characterized by the amalgamation of previously established transnational concerns, which are quite large. The globalization of the world economy and technological progress play a fairly large role in this regard. When using mergers and acquisitions by Russian companies to improve their competitiveness, our country will have more opportunities to join the ranks of the most developed countries, which determines the relevance of this study.

#### **4. Purpose of the Study**

The purpose of the study is to determine the impact of centralization and capital concentration on the competitiveness of credit institutions in the banking market. The object of the research is the processes of centralization and concentration of capital in the banking services market (Offiong et al., 2020). The subject of the study is economic relations arising in the process of centralization and concentration of capital (Churkina & Zaverskiy, 2017). Significant support in the research process was provided by information sources, as well as theoretical materials on relevant issues (Peetz et al., 2013). The information base of the work was made up of official statistical and analytical data of the Central Bank of the Russian Federation, as well as materials from scientific publications, periodicals, Internet resources on the subject under study. The purpose of this work is to study the process of concentration and centralization of capital in the banking sector, which will help to identify key patterns of development of credit institutions in modern conditions. Identification of factors and conditions that determine the processes of capitalization of the banking sector. study of the structure of the banking sector in the current period of time. Analysis of the banking market will help to develop practical recommendations for improving the institutional regulation of this industry.

#### **5. Research Methods**

The study of the influence of centralization and concentration of capital on the competitiveness of credit institutions involves the use of various methodological approaches and local methods. The systemic

approach was used as the main methodological approach, since this approach makes it possible to analyze the banking sector as a system, with existing interactions between individual players. Another methodological approach used in the study is comparative, which allows comparing the state of the credit institution before and after centralization of capital. The key research methods are analysis, synthesis, and deduction. These local tools will allow us to reveal in more detail the regularities of the processes of centralization and concentration of capital.

The method of analysis of financial statements (accounting studies) was used as local research methods. This method is based on a comparative analysis of financial indicators before and after centralization and concentration of capital. The main resulting indicators showing the effect of a merger or takeover of credit institutions are the return on equity (ROE), return on assets (ROA), and the ratio of EBITDA to revenue.

## 6. Findings

We can identify one of the key features of the banking sector in Russia. This distinctive feature is the functioning of banks with state participation on the one hand, and private banks on the other. The function of credit institutions, the share of which falls on the state, is to develop the country's economic sphere. Such organizations can use the federal budget as the main liability. Speaking about the advantages of the banking system in our country, one can note both resource potential and receptivity to technologies, and rational regulation. But beyond that, underdeveloped infrastructure, indiscriminate demand and sluggish competition are also inherent in our national banking sector.

In 2018-2019 the Bank of Russia continued to pursue its policy to rehabilitate the banking sector. According to the Central Bank of the Russian Federation, 60 banks had their licenses revoked in 2018, and 28 banks lost their licenses in 2019 (Central Bank of the Russian Federation, 2020). The total amount of net assets of such credit institutions amounted to 107.2 billion rubles at the beginning of 2020, which is 0.11% of the total assets of the banking sector. This fact indirectly testifies that the process of banking system reorganization is coming to an end and weaker market participants do not have such a significant impact on the efficiency of the banking sector. Strengthening the level of competition in this sector is a priority medium-term strategy of the Central Bank of the Russian Federation (Central Bank of the Russian Federation, 2020).

We can see that the number of banking organizations has significantly decreased, for example, since 2010, 574 banks have ceased their activities, and already in 2019, 484 operating organizations remained on the market. This reduction in organizations in the banking sector is caused by several reasons: a decrease in oil prices, an increase in inflation, a weakening of the ruble, a decrease in the purchasing power of citizens, and the revocation of licenses from banks. In 2019, 77 operating credit institutions ceased their activities.

A decrease in the number of operating credit institutions does not weaken competition, but, on the contrary, intensifies it. Thus, large leading companies remain on the market, which are forced to constantly adapt to the conditions dictated by customers. Today, the following leaders are distinguished on the Russian banking market (Table 1):

**Table 1.** Rating of Russian banks by key performance indicators, for December 2019

Position	Bank
1	Sberbank of Russia
2	VTB
3	Gazprombank
4	Alfa-Bank
5	Rosselkhozbank
6	National Clearing Center
7	FC Otkritie Bank
8	Moscow Credit Bank
9	National Trust Bank
10	UniCredit Bank

Source: authors.

Note that the massive reduction of credit institutions began in 2001, the main factor of which was the loss of the license of the commercial credit institution. Reasons for revoking such a license are the following:

1. Inability to pay off the debt to the creditor.
2. Evasion of compliance with regulations of the Bank of Russia.
3. Failure to comply with laws according to which the activities of the banking organization should be carried out.
4. If the bank's capital does not exceed the lower threshold of the authorized capital.

But the fact that a significant number of credit institutions have decreased has had a positive impact on the banking sector. The society develops confidence in the stability of the current system, since only those companies remain on the market that can fulfill their obligations to creditors and depositors. Note that in 2019, net assets of national banks increased by 0.5% and as of January 1, 2020, the total net assets of banks amounted to 92.6 trillion rubles. Based on the data of the Central Bank of the Russian Federation, the share of net assets of the five largest banks decreased by 0.01% in 2019, while in 2018, for comparison, this indicator showed an increase of 4.6% (Central Bank of the Russian Federation, 2020).

Regarding the share of assets of banks that underwent the financial recovery procedure, relative to the total volume of assets of the banking sector in 2019, the indicator decreased from 10.6% to 7.5%. This reduction is primarily due to reorganization of such large banks as Bank House of the Russian Federation, FC Otkritie Bank and Svyaz-Bank. The decrease in the indicator was also influenced by absorption of several banks under resolution by their current investors. Looking at the volume of assets for the analyzed period, it is noticeable that the position is occupied by Sberbank. The growth rate of Sberbank assets amounted to 128% for 2016-2019. The second place is taken by VTB Bank, the growth rate of which was 145%. Based on these diagrams, we can see that Alfa Bank was in the top five in terms of assets from 2016 to 2018. However, in 2019 it took 4th place, overtaking Rosselkhozbank by 0.5 billion rubles. It is worth paying attention to the fact that the considered banks, except for Alfa-Bank, have a certain share of the state in their assets. At the beginning of 2020, the state share in Sberbank was 52.32%, in VTB - 60.93%, the share in Gazprombank was 35.54%, in Rosselkhozbank - 100%. The concentration of assets in large organizations with a predominance of "state-owned banks" has a negative effect on the level of competition in the banking sector; in addition, the interest of investors and existing shareholders of banks in this sector

is decreasing. It is very unlikely that the situation will be smoothed out by tightening regulation of systemically important credit institutions and even by selling some of reorganized banks to private investors. Large banks with direct and indirect state control will remain the main trendsetters and the most active market participants (Hassan & Giouvris, 2020).

As mentioned earlier, in 2014-2019 a policy was implemented to rehabilitate the banking sector by revoking licenses from banks. During this period, the number of market participants more than halved - if at the beginning of 2014, according to the Central Bank of the Russian Federation, there were 923 credit institutions in the country, then there were 464 credit institutions by mid-2019. As noted by the Bank of Russia, one of the main reasons for revoking a license from credit institutions is a high-risk business model (Central Bank of the Russian Federation, 2020). Quite often, such a model provided for lending to projects of the bank's owners at the expense of third-party clients and a corresponding inadequate assessment of such assets. It should be noted that until the day the licenses of banks are revoked, there are measures to prevent bankruptcy of credit institutions. These are the following measures:

1. Financial recovery.
2. Appointment of a provisional administration to manage the credit institution.
3. Reorganization of the credit institution.
4. Measures to prevent bankruptcy of the credit institution.

In 2017, a new resolution mechanism was put into effect, providing for the transfer of the problem bank to the Banking Sector Consolidation Fund (BSCF), controlled by the Bank of Russia. This scheme provides the Bank of Russia with direct participation as an investor. According to the same scheme, reorganization was carried out by the Deposit Insurance Agency with the involvement of external investors.

Improvement is carried out by solving the problem with debt to creditors, with illiquid assets; the management and management system is also being optimized; unprofitable branches are being reduced, and more modern methods of work are being introduced. One of the most common methods of recovery is reorganization in the form of joining a problem bank to a major player in this market. So, in the period from 2018-2019, 15 banks were reorganized in the form of merger. Some of the banks undergoing financial reorganization (Table 2):

**Table 2.** Credit organizations reorganized in the form of merger in 2018-2019

№	Information about the merged credit organization				Information about the credit organization which merged		
	Name	Registration №	Date of registration	Date of reorganization	Name	Registration №	Date of registration
1	Khovanskiy	2145	26.10.1992	28.02.2018	J&T Bank	3061	21.09.1994
2	VTB24	1623	18.11.1991	01.01.2018	VTB	1000	17.10.1990
3	Rost Bank	2888	10.06.1994	02.07.2018	Trast Bank	3279	27.11.1995

4	Globex	1942	07.07.1992	26.11.2018	Svyaz-Bank	1470	20.05.1991
5	Rosevrobank	3137	19.10.1994	12.11.2018	Sovcombank	963	27.11.1990
6	SKIB	3329	27.05.1998	12.11.2018	Sovcombank	963	27.11.1990
7	Digital Bank	2827	10.05.1994	01.01.2019	FC Otkritie	2209	15.12.1992
8	Binbank	323	25.06.1990	01.01.2019	FC Otkritie	2209	15.12.1992
9	Avtovazbank	23	16.11.1988	07.03.2019	Trast	3279	27.11.1995
10	Baltic Bank	128	11.1989	13.05.2019	Alfa-Bank	1326	20.12.1990

Source: authors.

Thus, problem banks are merged by larger ones that can give a second chance. This method of reorganization, with the involvement of a turnaround commercial bank, is called credit (Girón et al., 2019). The Bank of Russia provides the turnaround company with a preferential loan, with the help of which it conducts the financial reorganization of the problem bank (Central Bank of the Russian Federation, 2020). This reorganization scheme, as a rule, is designed for 10-15 years, full recovery comes at the end, when the bank closes all problems. However, if the turnaround bank has the opportunities, the procedure can end much faster. In other words, it is centralization of capital that helps in the financial recovery of troubled banks, as well as ensures an increase in their competitiveness within the Russian banking sector and the implementation of efficient activities in the market. Often, this method of rehabilitating a troubled bank gives advantages to the turnaround company, for example, by transferring new clients to it and expanding regional networks. It should be noted that the decision on reorganization is made less frequently than on revocation of the license. The regulator decides on bank reorganization only in three cases:

1. There will be negative consequences in the banking market caused by the liquidation of the bank.
2. The bank is in a key position.
3. The bank's problems are caused by external factors.

Let us consider how centralization of capital affects the competitiveness of companies using the example of Baltic Bank. Baltic Bank was registered on July 5, 1989 by the State Bank of the USSR. The bank provided a full range of services for both corporate and private clients. It was the backbone bank of the Oktyabrskaya Railway, but in 2005 Russian Railways announced its decision to transfer accounts to Transcreditbank. In mid-2013, there was a conflict among the main shareholders - Oleg Shishaev and Andrey Isaev, the share of each was 49.9%.

In 2014, the financial condition of Baltic Bank DIA was audited, and the Bank of Russia decided on the need for a financial reorganization procedure for the problem bank, in the form of a merger. The bank's problem was estimated at 30 billion rubles. The turnaround company was Alfa-Bank, the largest bank in the Russian Federation and the fifth in the banking sector, which received 57.4 billion rubles from the DIA to implement reorganization. The purpose of this decision was to protect the interests of customers, depositors, creditors of the bank, as well as to restore its stable position. According to the results of the first half of 2014, in terms of assets, the bank ranked 69th in the Russian banking market, as well as (Table 3):

**Table 3.** Rating of Baltic Bank by the main criteria before and after reorganization

Criteria	Place		Amount, billion rubles	
	2013	2019	2013	2019
Assets	89	4	83,2	3 391,2
Equity	83	4	7,9	403,5
Funds of individuals	34	3	58	1280,8

Source: authors.

In 13.05.2019 Alfa-Bank announced the early completion of the financial reorganization of Baltic Bank, which is 1 year earlier than planned. It was noted that all procedures for the bank's reorganization have been completed. Thus, after the financial restructuring of the Baltic Bank in the form of a merger with Alfa-Bank, the reorganized bank ended up in the top five largest banks on the market. This is undoubtedly a good result. Any bank is exposed to market risks arising from open positions in interest rates, securities and foreign exchange products. To control them, it is necessary to periodically assess potential losses due to unfavorable market conditions. Let's analyze the main indicators of Baltic Bank and conduct a comparative analysis of the bank's results before and after reorganization with Alfa-Bank. Let's analyze the capital adequacy ratio (Table 4):

**Table 4.** Capital adequacy ratio of Baltic Bank before and after reorganization

Indicator	Value, %			Performance benchmark, %	Increase in 2019 to 2014, %
	2013	2014	2019		
Capital adequacy (H1.0)	10,7	10,7	15,1	2014: min 10 2019: min 8	41,1

Source: authors.

Based on the data obtained, it can be said that the capital adequacy ratio before reorganization of Baltic Bank was not much higher than the performance benchmark. However, in the banking market, the capital adequacy ratio averaged 12.8% in 2014. After reorganization, the growth rate was 41.1%, which indicates a positive result of the bank's restructuring. The indicator is far beyond the established norms of the Central Bank of the Russian Federation, which suggests that the bank's capital is enough to compensate for possible financial losses. Let's analyze the indicators of liquidity risk of Baltic Bank and reflect the results in Table 5.

**Table 5.** Indicators of liquidity risk of Baltic Bank before and after reorganization

№	Indicators	Value, %			Performance benchmark, %	Increase in 2019 to 2014, %
		2013	July 2014	2019		
1	2	3	4	5	6	7
1	Instant liquidity ratio (H2)	119,3	54,5	183,8	min 15	37,2
2	Current liquidity ratio (H3)	137,2	78,3	177,7	min 50	26,9
3	Long-term liquidity ratio (H4)	38,2	38,9	48,8	max 120	25,5

Source: authors.

Having analyzed the performance benchmarks, we can say that before and after reorganization of Baltic Bank, the indicators are within the permissible values. However, the indicator fell sharply, by half, before reorganization. After the financial recovery, all indicators grew by an average of 29.9%. The H2 indicators are 12 times higher than the performance benchmark, and the H3 indicator is 3.5 times higher. The long-term liquidity ratio is also within the performance benchmark and is 2.5 times less than the performance benchmark. All this indicates that the bank, if necessary, can reduce the number of rapidly liquid assets and at the same time not lose liquidity of assets. Summarizing the above, it can be noted that financial indicators of Baltic Bank after reorganization with Alfa-Bank showed significant growth and are currently at a decent level. By increasing all indicators and becoming one of the largest and most reliable banks in Russia, Baltic Bank has undoubtedly increased its competitiveness. We can say that this is one of the successful examples of the bank's financial recovery, which shows the effectiveness of this mechanism. In addition, this reorganization was carried out one year earlier than planned (Marshall, 2013).

During the merger and thanks to the efficient work of the turnaround company and DIA, it was possible to retain a significant part of the client base of the reorganized bank, approximately 70%. Alfa-Bank received about 200 thousand individuals and 4 thousand legal entities for servicing. In addition, the ATM network of the turnaround company increased by 25% due to the merger. Clients of Baltic Bank now have access to Alfa-Bank products, which include the best offers for both private and corporate clients, as well as high-tech infrastructure and quality service at the level of the country's largest private financial institution. The merger provided a synergistic effect and opened new opportunities for Alfa-Bank's clients. Thus, in the event of a successful financial recovery of the bank in the form of joining a larger market player, the merged bank will undoubtedly gain advantages: firstly, financial problems are closed, and secondly, the bank's rating in the market rises, in other words, the bank acquires a stable financial position. We also note that the turnaround bank also has certain advantages: new clients appear, the infrastructure and regional network are expanding.

## 7. Conclusion

The following conclusions were formulated:

So, centralization of capital is one of the fundamental directions of economic life. Many economists have been studying this phenomenon. But, one can as a person who managed to more fully explain the phenomenon of centralization in his work “Capital”. His work remains relevant to this day. Due to the centralization process, there is an increase in the control of large associations over smaller ones in the market. The source of growth for this process is external components, i.e. already existing independent capitals, which are subsequently combined. Historically, centralization originates from the formation of joint-stock companies, because they made it possible for their founders to mobilize and control smaller capitals. And credit and competition are the main levers of centralization.

The implementation of this process is presented in the form of a complex set of activities. In the scientific literature, there are several stages in the transaction to centralize capital, but in practice such a division seems difficult to execute due to its complexity.

The study of the impact of centralization on the competitiveness of a company was examined using the example of the banking sector. Indeed, one of the key areas of Russia's economic development strategy is revitalization of the country's financial market. The most developed sector of the Russian financial sector is the banking services market. Any kind of changes taking place in the banking sector, one way or another, have an impact on the entire economy. And for the country's economy to function normally, it is necessary to ensure the correct organization of the banking system.

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