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**INTEGRATION PROCESSES AS PREREQUISITE FOR  
IMPROVING BUSINESS ENTITIES EFFICIENCY**

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***Abstract***

The article is devoted to problems and features of integration processes, without which modern economy is difficult to imagine. Integration is a development process; the result of this process is achievement of integrity and harmony within a system based on the unity of previously isolated specialized parts. Economic integration is defined as unification of economic subjects, their interaction, strengthening of ties between them. In the framework of economic integration, there is unification of production processes, intensification of interaction during economic, research, production and marketing activities. That is why integration from the category of random market interactions is reborn into a phenomenon, the study and application of which are becoming increasingly relevant. The basis of integration is the search for successful business benefits. This includes obvious advantages that business structures receive after combining resources and opportunities. The goal of any partnership in commerce is to increase competitiveness. Analysis of the literature suggests that almost all authors agree that economic integration is a process. However, some authors believe that this process arises as a result of historical stages of economic relations: other authors believe that these are artificially created relations. The developed countries' experience shows that economic integration is a complex, objective and multifaceted process that exists at the international level, at the level of individual country regions, and at the level of enterprises. An especially relevant issue is improvement of this process, increase in the efficiency of created integrated formations, since not all such structures are viable and promising.

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## 1. Introduction

Integration at the level of individual enterprises in recent years has increasingly become a key factor in the economic development of individual territories. An important point in the economic integration of enterprises is the formation of favorable conditions for mutual existence, as well as the removal of sectoral barriers (Shalfman, 2013).

Russia has already passed the stage of market relations formation. The current stage, connected with the search for ways of economic innovative development, involves new economic structures formation, more relevant to modern economic conditions, and the identification of options for their improvement. This aspect determined the choice of the research topic.

## 2. Problem Statement

When analyzing the business state that has emerged in Russia so far, it seems to be easy to notice the emerging tendency to critically evaluate the accumulated experience in the field of commercial activity, to re-interpret the realities in the political and economic sphere. This approach plays a positive role in the search for new opportunities in the development of domestic entrepreneurship.

The reason for the analytical work was not only the global financial crisis of 2008-2012, which only made visible the problems associated with the organization and development of business. The main problem was and remains the low competitiveness of Russian enterprises in international markets. And the basic industrial sectors have turned out to be in the most difficult situation. Russia's accession to the WTO in 2012 significantly increased the requirements for producers, and for many business entities the very existence of their business was at stake (Strelkov, 2016).

Understanding the significance of what is happening makes businessmen strengthen partnerships between companies, look for ways to integrate. Having international experience in this field facilitates the task.

## 3. Research Questions

Historically, the first manifestations of integration as a pronounced process of mergers and company acquisitions is attributed to the end of the 19th and the beginning of the 20th centuries.

The integration of industrial enterprises and the formation of new corporate structures have become the most important features of organization and management development of the 20th century. The changes in the external environment that took place during this period led to the appearance of a huge variety of institutional forms in which the processes of industrial production were implemented (Kurkin & Potekhin 2005). One of the most common forms were mergers and acquisitions, which throughout their history have had a wave development character. Researchers, as a rule, distinguish five key stages (waves) in these processes:

- a merger wave in 1887-1904;
- company merger in 1916-1929;
- wave of conglomerate mergers in the 60-70s of the 20<sup>th</sup> century;
- a merger wave in the 80s of the 20<sup>th</sup> century;
- mergers in the second half of the 90s (Antonov & Ivanova, 2001).

In our opinion, this list can be supplemented with the sixth modern stage associated with the emergence of new types of integrated structures (including quasi-integrated ones).

The first merger peak, as it can be seen from the presented stages, was at the end of the 19th - beginning of the 20th centuries. During this period, the growth of the enterprise scale was caused by changes in the legislative base and extremely unfavorable conditions for running a business. For the first time there were companies that received a monopoly status in a number of industries. Having a significant opportunity to shape market prices, they manipulated production and supply, thus obtaining high incomes. Such processes undermined the very basis of the market economy, violating the principles of competition.

In the historical aspect, the mergers wave of enterprises specializing in different economic areas (mergers according to the type of conglomerates) is of particular interest. The emergence of large diversified companies (conglomerates) is typical for the 60s of the 20th century, although some conglomerates already existed in the 20s of the XX century. But if at that time their creation was aimed at solving the militarization tasks of the economy, then in the 60s conglomerates formation took place mainly on a purely commercial basis.

In the 1970s, the further development of large companies along the production path diversification took place, which was due to their desire to acquire assets in the most promising areas, in particular, electronics and telecommunications technologies.

The 80s are characterized by a decrease in profits of conglomerates. According to statistics, companies that were conglomerate parts, showed lower results in this period than independent enterprises of the same industries. New acquisitions further aggravated the situation, leading to losses. According to the results of M. Porter research, in the early 80s merger deals by conglomerates of unrelated companies ended in failure in 74% of cases (Porter, 1980).

Given these trends in the 80s of XX century, the number of conglomerate-type mergers decreased significantly. Moreover, the formation of new corporations was associated with the destruction of conglomerates created several decades ago. At this time, competitor absorption by acquiring their shares, including hostile takeovers, was predominant. In the same period, the processes of horizontal integration were intensified, which was the result of a legislation softening in the field of antitrust regulation. Soviet economists of that time were surprised by the fact that in economically developed countries the share of small and medium-sized enterprises began to grow, while the tendency towards consolidation decreased. The development of the economy, the growth of middle-class incomes in these countries led to a differentiation of demand, which was better served by relatively small organizations. In addition, it became obvious that the potential of vertical integration had been exhausted, and the search for new forms began.

In the 90s of the XX century, the integration processes development continued, one of the decisive reasons was the need to ensure enterprises stability in a changing external environment. Thus, in the West, due to high uncertainty and tough market competition, the horizontal type of merger became the most popular. For example, in the steel industry and in the field of Internet services, an excess of supply caused a reduction in the number of companies in the industry. The period of 1997-1998 years is characterized by the emergence of integrated financial institutions.

According to experts, the reasons for merger processes intensification in 1998 are associated with the globalization of economic processes and preparations for the creation of European economic and

monetary union. In addition, each specific area of business is characterized by its specific factors, “pushing” market actors to integrate. For instance, the increase in demand for banking and insurance services, the combination of previously fundamentally different fields of activity as banking and insurance led to the integration of relevant companies.

In general, by the end of the XX century, mergers with the conglomerates formation have become the least popular. However, among the companies whose shares were traded on New York Stock Exchange by the early 2000s, 40 companies were officially classified as conglomerates. They included such giants as General Electric, American conglomerates Textron Inc and United Technologies Corp, British Hanson, Dutch Philips Electronics, Italian Montedison, etc. However, all these giants focused their activities on those segments in which they were the undisputed leaders. Today, they continue to acquire companies within the confines of key business areas and sell all non-key assets.

This is the international historical aspect of the problem we are considering. Let us now turn to the Russian realities, not ignoring the specific integration experience accumulated in our country during the Soviet period.

The surge of activity on creating integrated structures in Russia fell on the 90s of the XX century and was associated with the transition to market relations, with the privatization process, the creation of various financial and commercial structures.

The desire to strengthen the competitive position by reducing the costs of production, distribution and marketing of products, as well as increasing profits and return on investment often creates vertical integration of enterprises. The creation of powerful integrated structures in the industry of the Russian Federation was caused not only by the need for market self-organization during the transition period in the 90s of the 20th century. It is necessary to take into account that a certain positive experience was gained in previous decades, during the search period, which was conducted as a part of the planned management system. Hereditary administrative system of management definitely influenced the process of integration structures creation in Russian economy of the transition period.

The production integration processes in the Soviet period differed in their characteristics. During the "Soviet" period, attempts to introduce various kinds of associations, combines, complexes and other forms of territorial and sectoral organization of production were made in order to rational use of resources and achieve the greatest national economic effect. However, the key motives for integration were not always associated with economic expediency. The participants interests in the associations were not taken into account, the relationships between enterprises were established and regulated by the planning system. The management of joint structures was carried out mainly by planning and administrative methods. The links between enterprises were vertical rather than horizontal, because the enterprises were heavily dependent on higher-level administrative bodies, and horizontal relations with other industrial enterprises were too weak.

The creation of giant enterprises was very typical for the Soviet economy. This organizational megalomania was due to the desire not only to achieve scale effect, but also to simplify planning and control: it is easier to plan the actions of a small number of large enterprises than a multitude of small ones. As a result, when, in the course of reforming our country economy, many cooperative ties were destroyed, a deep economic crisis ensued. Nevertheless, a certain positive experience of the economic production integration was accumulated. The experience of creating territorial production complexes is particularly

valuable, as well as other organizational forms of production that appeared in the pre-restructuring and first restructuring years (Semiglazov, & Semiglazov, 2012; Waidman, 2001): industrial associations (IA), research and industrial associations (RIA), intersectorial research and technology complexes (IRTC). The task of forming the latter was the unification of science and production to overcome the technological backwardness and enhance the innovation activities of enterprises. Unfortunately, the crisis that followed in the reform years and the sharp reduction in capital investments did not allow for these goals full realization. Nowadays, scientific and technological innovation complex Skolkovo is an instance of science, education and business integration.

Thus, successful domestic developments should not be abandoned when using advanced foreign experience.

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

At present, integration processes in the Russian economy are taking place quite actively, the number of mergers and acquisitions is increasing, but the integration units do not always work effectively. This leads to the need to change configurations, and often - to the collapse. Studies show that more than 60% of mergers and acquisitions do not pay for the expended resources, more than half of companies lag behind competitors in their development and disintegrate, less than 20% of companies fully achieve the objectives of the merger, and the productivity of financial industrial groups decreases.

In our opinion, the problem is that the methods for combining enterprises used in Russian practice are not only based on taking into account the influence of changing external factors, analyzing the potential benefits of integration, developing an appropriate strategy, substantiating the composition of participants and activities to be combined, but rather on the prospects of cheaper asset acquisitions and technological connections.

In formation and management theory of integrated formations, as evidenced by the study of various concepts, a unified approach has not been formed yet that allows to take into consideration the diversity of factors (external and internal) that affect efficiency level and competitiveness of the combined structures.

In our opinion, the factors leading to crises and the breakup of integrated companies have not been studied enough. Failures in the integration formations are often caused by the fact that possible market changes were not calculated in this process after merging.

The purpose of this study is to analyze and summarize the formation and functioning experience of integrated structures of economic entities, to offer organizational and economic procedures, which use when designing the integrated entities will improve the viability and effectiveness of the latter.

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

In carrying out the study, the systemic, historical, dynamic approaches, and methods of analysis and synthesis, comparison, classification, etc. were used.

#### **6. Findings**

An empirical analysis of the experience and characteristics of Russian integrated structures formation allows us to conclude that environmental factors are not always adequately considered in the

integration planning process in our country, which in fact are key to the appropriate association. Unfortunately, the main motivation for integration is the desire to “sit down” on the cash flows of other enterprises, speculative goals, the desire to reduce transaction costs, bind suppliers or consumers, tax cuts, additional savings from introducing transfer prices, etc.

The study of formation and functioning characteristics of Russian integrated companies, as well as effectiveness loss problems of their functioning and subsequent collapse, showed one key reason which is the random and often incompatible composition of participants in the association.

Another quite common problem has been identified related to the underestimation of the influence of market factors, which does not allow industrial groups to realize the benefits of integration, and heightens the negative consequences of integration (Rastorgueva & Guremina, 2016).

The merger procedure is a kind of “bifurcation point”, and it is necessary to take into account a huge number of factors in order to get out of it with minimal losses and onto the desired development trajectory. Any management decision requires a significant amount of systematized information. In the case of business entities integration, it seems to be obvious to analyze a huge amount of information, both retrospective and forecast, (for example, future market position, finances of an integrated company, etc.). The making deals practice clearly shows that in most cases the deal result can be negative. As already mentioned, about 60% of all business associations fall into independent corporate components without having an opportunity to recoup the invested funds.

Another important point, which, in our opinion, is not always taken into account in the processes of mergers and acquisitions is the moment of acquiring an enterprise regarding the industry life cycle. According to research results, the probability of horizontal integration success is quite high in the case when the participants in the transaction are industry representatives being in the growth or maturity phase. In such circumstances, there is a significant increase in efficiency as a result of strengthening the market position of the united economic entity and the presence of scale economy. The horizontal enterprise integration belonging to industries in a phase of decline has also been successfully demonstrated. At the same time, firms merger implementation belonging to mature (dying out) and developing industries does not often end in success. One of the failure reasons, according to some researchers, is the management inability of an absorbing company to rule an enterprise operating in an environment characterized by a high level of competition and variability. Therefore, the stronger the company in the diversification process “deviates” from its main activity, the greater deterioration probability of its activity results is.

Merged production should relate to industries being in the same life cycle phase.

One of the reasons for the failure of combining enterprise is the lack of a strategic approach and the inability (or unwillingness) of managers to analyze all possible risks of integration transactions. The experience analysis of a number of integrated companies functioning allows us to identify key problems that give rise to a variety of risks:

1. Negative staff feedback. It takes place where the company management, fearing the loss of its position, contributes to the partnership termination and the emergence of internal competition, which in turn leads to conflicts.

2. Insufficiently elaborate strategies. The management subsystem does not build a unified strategy, does not justify the need for resources for further integration, etc. This approach is especially dangerous when integrating enterprises into a new, unfamiliar field of activity.
3. Intentionally incorrect (overestimated) assessment of the project integration effectiveness (specialists developing a business plan for the future integrated education are often too interested in its creation, and make appropriate calculations from impracticable, extremely optimistic positions; analysis and evaluation of alternative project options are not always carried out).
4. Control system deficiency over the integration company course as a whole (lack system characteristics allowing to assess transaction success).
5. Fuzzy powers, decision-making delay in new integrated structure. When the organization operates a large number of levels of the management hierarchy, it delays the transaction. In addition, in new control subsystem it is necessary to define the powers and responsibilities of managers at all levels.

To facilitate the identification process and reduce risks, we will distribute them according to project implementation stages. (Table 1).

**Table 01.** Risk distribution by project implementation stages

Name of the risk group in accordance with the project implementation stage	Types of risks included in the relevant group
1. Risks at the stage of the integration strategy preparation	a) the risk corresponding to the method selection of the company growth. Company growth, in connection with the chosen merger strategy, is in some cases inexpedient for strengthening the firm position;
	b) risks associated with choosing the integration form;
	c) risks arising from potential partners selection (associated with a lack of information about them);
	d) the risk of incorrect determining the company status (due to insufficient information on the affairs state in the industry, the market value of the company assets).
2. Risks associated with the merger strategy progress	a) risks associated with stockholders capital, that is the reduction in the value of the merged company in comparison with the individual companies total value;
	b) risks associated with changes in the ratio of total capital - the owners risk losing a significant part of the control over the merged company.
3. Risks associated with enterprise management resources	a) the risk of staff cuts, including leading specialists and managers. As a result of this process, the level of scientific and technical potential of the newly created integrated education decreases;
	b) disaffected risks, that is negative attitude of employees to the changes. This may lead to a deterioration of the merged company social climate, a decrease in productivity.
4. Risks associated with the enterprise fund	a) risks arising from the combination and redistribution of financial flows that worsen the financial situation of either one or several transaction parties;
	b) the risk of increasing the tax burden on the merged structure (both due to the direct increase in tax payments, and to the loss of tax privileges of participants);
	c) risks of reducing the profit rate (in the case of integration with unprofitable enterprise);
	d) risks associated with changes in the enterprise size, the negative scale effect; difficulties in managing a new integrated structure, the problem of redistributing received income between individual links, etc.

5. Risks associated with changes in the macro environment company changes	a) the risk of positive effect short payment from the planned transaction due to the impact of a downturn in the industry or a financial crisis (macroeconomic instability);
	b) risk associated with destabilization in the securities market due to high inflation and other non-transaction factors;
	c) the risk of technological changes in the industry being able to make one of the integrated business links unnecessary or ineffective, etc. (Chuveleva, 2015).

Another aspect that must be considered when initiating the next integration process is the correct choice of the organizational form of unification. The experience gained over a century-long period makes it possible to highlight the advantages and disadvantages of the main organizational integration forms (Rastorguev & Guremin, 2016). Summarizing the available material, we presented them in the following form (Table 2).

**Table 02.** The advantages and disadvantages of various organizational forms of enterprise integration

Organizational form of integrational unification	Advantages	Disadvantages
Holding	A single scientific and technical and economic policy for all participants. Broad participant autonomy in production activities	The inability of using this form in a number of economy sectors (for example, in agriculture)
Financial industrial group (FIG)	Ability to maintain existing production links. Development prospects of financial relations of participants. Reducing production costs by consolidating assets. Increasing resource efficiency. Reducing the environment negative effects.	Assessing problems of each participant contribution to the overall result and the distribution of income received. Monopolistic nature of cash flow control.
Association	The voluntary unification nature. Preservation of economic independence. Ability to exit the union without agreement with other members.	The narrow association focus. Lack of capital association.
Consortium	Target unification nature (for a specific project implementation).	Activity termination after reaching the goal.
Cartel	The conclusion of mutually beneficial agreements on prices, regulation of production volumes, markets. Strengthening competitive position in the market.	Contributes to the market monopolization. Conflicts with the basic principles of the antimonopoly legislation.
Syndicate	Management centralization of the participants commercial activities. Lack of problems with product sales.	The inability to combine financial and industrial capital.
Trust	Equitable profit distribution in accordance with each participant contribution.	Loss of legal and economic independence. Lack of centralized investment financing sources.
Concern	High level of co-production. Combining the participants' property. Centralized control system.	Restriction of participants' independence.
Pool center	Expenses and profits distribution according to previously concluded agreements.	Temporary association nature.

Modern economic reality gives rise to new organizational forms of companies unification: strategic alliances, business groups, clusters, networks, and other forms, which are called quasi-integrated. Their appearance is associated with such significant trends in the economy as productivity intellectualization, individualization that is the transition from mass production to the differentiation of products, the organization of flexible business and interfirm networks through cooperation and integration of enterprises based on the use of information technologies and the Internet, etc. (Adamova, 2011). New forms integration spread is influenced by the economy globalization, technological innovations rapid spread, and the constant tightening of the competitive environment.

## 7. Conclusion

In conclusion, it should be noted that the creation of wide scale integrated structures is one of the important trends in the economic transformation of the Russian economy. Their functioning effectiveness within the framework of the economy real sector in our country influences the industrial production scale and results in the Russian Federation. Enterprises reorganized into integrated companies have the ability to respond to changes flexibly in demand in consumer markets. The integration structures formation and functioning have a meaning in obtaining the synergistic effect from a combination. This effect can be achieved only on the basis of a sound development strategy.

That is why we believe that in order to maximize the synergistic effect, the combination type careful selection, goal and strategy are required. It is important to have a realistic approach to the company assessment, the ability to anticipate problems and results.

The analysis allows us to identify key procedures that should become an integral part of the design of new integrated structures:

1. Reasonable choice of integration organizational form.
2. Careful selection of participants in the future business association.
3. Setting priorities for key activities, including taking into consideration the life cycle stage of the combined industries and branches.
4. External and internal environment Analysis of the combined company, its strategy development.
5. Risk Assessment associated with the mergers.
6. Synergistic effect calculation of a merger.

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