

**International Economics**

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**ABOUT THE ESSENCE  
OF THE BUSINESS ENTITY INTEGRATION**

**Abstract**

The article analyzes the essence of the concept «integration», approaches to classification. Typology of the kinds of the business entity integration is proposed.

**Key words:**

Kinds, integration, entity, typology.

**JEL:** F15, D00.

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**Introduction.** Development of the modern world economy occurs under the powerful influence of the process and received the definition «globalization». The basis of this process is the scale integration of national economies in a unified economic complex. As a result there occurs the accelerating of capital movement, the introduction of modern technology and methods of management, there is increased competitiveness of business entity. In the age of globalization no entity has any other choice but actively participate in the integration processes. More and more businesses use world quality standards and experience business implementation, with the purpose of strengthening the competitiveness on the market in all sectors. One of the lines of strengthening the competitiveness of business entities is their integration that enables enterprises heads to transform their competitors to partners in order to provide more favourable conditions of functioning and economic growth by pooling resources.

Issues of substance and value integration for business entities were researched by the following scientists-economists as Aivazian S. A., Arutinova D. V., Balkind O. Y., Baklazhenko G. A., Basnin T. D., Bakhteyev Y. D., Volodin V. M., Goncharov S. M., Goldstein G. Y., Dubova L. N., Zagorodny A. G., Pilipenko A. A., and others (from 1. till. 15 in bibliography list). However, the given works don't define any approaches to the concept «integration», there is versatility in its kinds, etc., and that becomes the basis for further study in conjunction with definition of the essence and the integration value in business.

The purpose of the article is theoretical deepening the content of the concept of «integration». To do this scientific challenge which is to study its nature and systematization of its forms.

**Summary of the main material.** A. G. Zagorodny and G. L. Vozniuk define the concept «integration» as (full or partial) association of enterprises for producing certain goods with a minimal financial and material resources (Arutinova, 2010), and in the explanatory dictionary of the economist (Buriak, 2003), it is defined that integration is an agreed development and complementarity of the enterprises, economy branches, regions to the benefit of more efficient resources use and more complete satisfaction of participants needs in the process. In (Glushchenko, 2005) the integration is understood as the process of combining various subsystems (of parts) efforts to achieve the organization goals, and in (Goldshtein, 2003) it is the process of mutual adaptation and to a certain extent the uniting several states economies that are located on the same development level.

Wikipedia defines two contents of the concept «integration» (Goncharov, 2008). Firstly, this is combination, interpenetration; this is the process of some elements (parts) integration; the process of inter-convergence and relationships

establishing, and secondly – consolidation, combining of political, economic, governmental and social structures in the framework of the region, the country, the world.

In some sources financial and economic integration are determined. Thus, in (Danyleichuk, 2010) released financial integration as international process of harmonization and unification of international tax systems, budget processes, government spending, systems of control on the part of the central banks, and in (Economic dictironaty after Bagrii, 1973) economic integration is the process of a number of countries economies convergence. From the capitalism the integration acquires manifestations of monopoly of State-forms Union of capitalist countries.

Pilipenko A. A. (Zhyvko, 2007) defines the term «integration» in three aspects:

- integrated value – requires the unity of integration separate components, their ratio. To understand the integrated value it is advisable to examine its definite parts, but components study is possible if there is an understanding of the value;
- integration-process – determines the stage of combining components in a definite period of time, their transformation according to the changes that occur in the system;
- integration-result acts as a consequence of the implementation of the definite system integration process and provides for the creation of an integrated «good.»

Some scientists study integration directly in the interrelation with «business structure». So, in (Zagoronii, 2007, p. 58) the «integrated structures of the business entities» refer to variety of individual entities groupings that chain links have to be defined and appropriate relationships between economic and financial inter-coordination in order to achieve the synergy effect of varying degrees as a result of their performance.

Buriak P. U. in the paper (Karpinskyy, 2007, p. 157) specifies that integrated entrepreneurial structure (including corporate) is an association of independent economic enterprises (organizations) that are based on the consolidation of assets, or the implementation of contractual relations to achieve a general purposes in the market transformation of the Ukrainian economy.

Summarizing the stated above, we mention that the papers (Buriak, 2003; Golgshtein, 2003; Goncharov, 2008) contain the notion «integration» and it has a general word – «collaborative» – «complementarity», «correlation», «collaborative adapting», «collaborative engagement», «interpenetration». Only in the papers (Zhyvko, 2007; Konoplitskyy, 2007; Volodin et al., 2005) «integration» is «the process» – «process of harmonization» and «reduction process». However,

the concepts do not define for what purpose and under what conditions the integration occurs.

Business entity tends to integration due to its advantages, namely:

- reduction of uncertainty level in supply and sales – let's mention that this relates not only to the enterprise that carries out the integration, but also to the integrated businesses;
- restriction of competition (this possibility gives not only horizontal but also vertical integration: the impact of enterprise-integrator on the enterprise-consumer can prevent its contact with other possible suppliers for this enterprise;
- application of advanced innovations and facilitation of the technological innovations diffusion;
- possession of high intellectual capital and implementation of investment projects;
- cost reduction – transport costs reducing, expanding the scale of production while reducing specific conditionally constant expenses, reducing the cost of production units (services, labours), reducing or complete cost lack of a competitive struggle.

The above benefits are common and it can be said that this is the result of integration. However, it should be defined that the entrepreneur agrees to integration, primarily, that his company will not reach the stage of bankruptcy. In other words – «to strengthen its position on the market».

Secondly, to «extend» their activities due to the new territorial market or by creating new products (services).

Thirdly, lack of resources (raw materials, production facilities); lack of financial resources; obsolete technical equipment; restricted access to the domestic and international markets; the lack of permanent, stable positions on the market, not enough developed international links, etc. – all this contributes to the reduction of positions on the market.

These goals are achieved at the expense of interaction with another enterprise which has sufficient resources (financial, technical, production, labour) and consequently reducing costs.

The main goal of total integration of the business entities is to increase the effectiveness of business entities activity, which is based on the specific weight of the enterprise market, a larger volume of products (works, services) and consumers, an elevated level of quality of products (works, services), etc. So, we can mention that the integration of business entities activity is supported by eco-

conomic component, which includes not only the correlation «profit-costs, but also the mutual use of productive resources.

The integration of business entities activity occurs on a contractual basis, where revenue, costs, risk, transfer price, subordination, etc. are defined and counted. The complexity of the agreement depends on the size of the integrated enterprises, the volume of the used resources and sold goods (works, services), etc.

Summarizing the stated above, let's define that integration is the process of economic interaction of two or more business entities that leads to convergence, collaborative penetration, interlacing of activities, resources and management capacity, which carry out their activities on the basis of economic and industrial cooperation in order to improve performance on a contractual basis. It should be noted that economic integration can be carried out at the micro-and macrolevels.

It should be mentioned that the primary general purpose of business entity integration is increasing of the efficiency of integrated business entity.

The business entity integration can occur in two forms. Firstly, under the condition of creating a new entity accounting, and secondly, for the account of organization-organizational forms.

It is important to define that the integration for the account of the organization-organizational forms is organizational business collaborative engagement in any form (franchising, venture outsourcing, etc.) after integration, by means of the contract (contractual) agreements in order to achieve with the most effective way the general economic, social and other benefits. In other words, it's the front (long term) economic collaborative engagement. This integration is specific interaction of small and large businesses (Yatskevych, 2011; Yatskevych, 2010).

Business organizations integration for the account of a new organization union establishing occurs to provide a new subject of achieving the objective that was set before the start of the integration implementation and that cannot be achieved if enterprises are managed by the integration strategy, however, each one acts separately (Ponomarenko, 2007).

Depending on the establishment and development, essence and business entity concept there can be defined their different forms.

V. M. Gorbatov points out that in the global management 10 basic organizational forms of integrated business entities spread: grantor trusts, concerns, conglomerates, financial-industrial groups, cartels, syndicates, pools, consortiums, strategic alliances and associations (Ponomarenko, 2007, p. 7). L. I. Fedulova states that in the world the most common are the following forms of corporate entities: cartels, syndicates, grantor trusts, consortiums, concerns, alliances, business associations and other (Ponomarenko, p. 162).

To integrated business entities R. V. Danileichuk refers integrated corporate business entities (corporations, concerns, holdings, and financial-industrial groups), transnational corporations and strategic alliances; clusters as a form of management and business entities territorial integration, including small business; integrated structure of innovative entrepreneurship, which realize society and marketing integration (Pylypenko, 2008).

At the same time the domestic legislation contains the definition of such organizational forms of corporate structures (Aivazian et al., 1998) as association, corporation, consortium, concern, holding and industrial-financial group. In Ukraine there are the following types of corporate entities that do not have a normative definition: syndicate, cartel, pool, trust.

Modern researchers of problems of integrated business entities pay attention to the development of more perfect form of integrated corporate entity as metacorporation, which is an association of legal entities and nonlegal employees, which contain the following characteristics:

- the presence of concentrating activity basic questions solving;
- part of the entities work on a commercial basis;
- business entities are interrelated, so all economic entities act as integral whole.

In the reference on business activity organization of (from 16. to. 19 in bibliography) there are two types of integration – vertical and horizontal.

In the business environment there functions the following type of integration as diagonal one. Under the diagonal integration is understood establishing integration relations with such business, which is not related or homogeneous for the given one, but is included into the manufacturing process, containing similar or (potentially) related enterprises.

Economic relations between the business entities are carried out in two integration forms:

1. Regional integration – that characterizes the way of business entity interaction within the region as a relatively secluded economic space. Such integration forms brings together the capital flows, material and other types of resources, including various forms of country partnerships and entrepreneurial sector or are realized at the level of business entity interaction.

2. Corporate integration – acts in the form of relationships that arise in the context of international corporate space, where goods, labor, capital freely move. This is compounded by the effect of corporations economic cooperation within the region.

It should be noted that all of the above forms have a single primary characteristic, it is an Association of independent subjects of entrepreneurial activity, but these forms differ in strategy of their interaction.

**Conclusions.** The carried out researches enable the typology of types of business entity integration, see table 1.

*Table 1*

**The typology of types of business entity integration**

Form	Characteristics
Alliance	union, association of several companies, enterprises, persons on contractual basis
Vertical integration	integration into a single technological process all or main parts of production and establishing relationships with the enterprise-supplier (integration down) or enterprise-consumer (integration up) of production (services) of the given enterprise
• consolidation	combining of the business entities, their actions, interests, joint capital for the sake of implementation of entrepreneurial projects, programs
• grouping	groups of related or mutual relations of ownership (Exchange of shares) or reciprocal administrative ties (including Board of Directors one enterprise from another), or the provision of the various services (development of technology, socio-domestic support, information and advertising services etc.)
• franchise	providing integrated enterprise the right to use the trademark, know-how, material and technical resources, belonging to integrator
• target extension	achieving integration at the expense of focusing the conscious extension of contracts on delivery (sometimes to the detriment of the market conjuncture) in order to create long-term sustainable integration links
Horizontal integration	association of the businesses that produce similar products
• association	integration of the businesses, created with the aim of permanent coordination of the economic activity of enterprises that have joined together by interlocking one or several industrial and managerial functions, the development of specialization and cooperation in production, organization of joint productions based on

Form	Characteristics
	the Association of participants of financial and material resources to meet mainly household needs of the Association members
• advisory bodies	created by limiting the powers of each integrated enterprises approved by the industry
• public financial bodies	created when interacting between enterprises and banks in order to promote cooperation and ensure the integrity of the funds management
• property management bodies	created in the interaction of enterprises in transferring to the integrated enterprise for a specified period some property in the management
• grouping	mutual exchange of shares or other form of participation in profits each other
Economic Association	association of enterprises and organizations that are created for the shared fulfilment of homogeneous functions and overall activities coordination
Diagonal integration	establishing the integration relations with such enterprise, which is not attached or uniform for the given one, but included in the technological chain, containing homogeneous or (potentially) adjacent enterprises
The innovative integrated structure	association of enterprises on the basis of scientific and technical developments and inventions
Cartel	association of enterprises where each company preserves financial and practical independence and which come together in agreement that concerns different sides of the commercial business activity, the agreement on prices, markets, production and sales of the range, sharing the patents, the conditions of hiring of labour
Cluster	association of businesses that closely cooperate with scientific institutions (educational), public organisations and local government in order to enhance the competitiveness of their own products
Conglomerate	association of several disparate businesses into a single organization, which are not related to each other by industry or technology signs of the enterprises, firms, credit institutions, but are under the sole control
Consortium	association of independent businesses for a certain period in order to achieve specific, pre-determined targets



Form	Characteristics
Concern	association of businesses where they retain their legal independence, but financial control and certain functions of the supply, production, marketing of enterprises taken under a single management
Corporate integration	system of interconnections that arise within interstate corporate space, where goods, labour, capital freely move
Corporation	association is formed on the basis of certain interests (industrial, scientific, commercial)
Metacorporations	association of juridical and nonlegal individuals, some of whom are commercial enterprises, but it does not have the status of legal person
Industrial-financial group	complex of different industries production enterprises (industrial, transport, construction, scientific) and financial institutions (banks, insurance companies, investment funds), which are integrated by a commonality of economic and financial interests and carry out coordinated economic and investment activity in order to preserve dominant positions on the market
Pool	association of market participants, the income and expenses of which are delivered to the General Fund and are distributed among them according to the pre-arranged ratio
Regional integration	a way of interacting business activity entities within the region as a relatively secluded economic space
Syndicate	association of enterprises of a certain industry that was created in order to capture the market by common products sell and by common prices
Trust	association of enterprises of one or several industries where the companies included into the consolidation, lose their economic and industrial independence, and management is centrally carried out
Holding	association of businesses, where one of the commercial organizations affects the decisions taken by the holding

The following table lists the forms of integration of business entities to disclose the content of integration depending on the strategies of enterprises interaction and determine their characteristics.

All forms of integration, despite their strategic differences, are managed by similar principles in their management. Firstly, this is the form of management

that is based on the mechanism of coordination according to the procedures approved in advance. Secondly, the establishing management authorities and the division of powers between them represent a long and gradual process. Here at the initial stages there is a trend towards centralization. In the following the success of the integration allows to reduce the administrative powers of the central authorities. Thirdly, there is the need for coordination between the participants. Fourthly, the problem of the large number of participants and differences in their specialization causes difficulties in management, but it can be solved by selecting the kernel of the Commonwealth and Division of the relationships between its members into general, multilateral and bilateral relations.

It should be noted that integration allows to stabilize production, technical and economic processes, to settle the mechanism of stable enterprises functioning, and also provides every enterprise a certain benefit, independence, which, in turn, is a priority for all forms of integration.

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