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DEVELOPING INTEGRATED BUSINESS GROUPS IN UKRAINE
AS A NEW TYPE OF INSTITUTIONAL STRUCTURES

The article seeks to address contemporary challenges in developing integrated business structures associated with the need to upgrade and innovate most important industries, provide industrial restructuring, and reduce technological backwardness and attain high-tech manufacturing growth. An emphasis is put on the critical significance of modernization in gaining a competitive edge of the national economy that will enhance Ukraine’s positions in a modern globalized world. This study employs a wide range of various research tools, in particular, methods of analysis, synthesis, generalization and comparison – to determine the nature, economic content, structural elements and drivers affecting the process of integrated business structure development in Ukraine; structural and functional analysis – to identify relevant institutional structures; as well as integrated assessment techniques – to explore international best practice in building integrated business units. Given the current trends and the specifics, it is argued that company development within a business group model spurs continuous improvement and innovation to meet market digitalization demands. The findings reveal the key aspects in developing integrated business groups as a new type of institutional structures in Ukraine. The study also focuses on the goals of their further development to implement transformational changes along with considering a number of factors affecting the nature of enterprise reorganizations and restructuring in the frameworks of their integration into business groups. Within the scope of this research, integrated business groups are viewed as a driving force in boosting Ukraine's economic development. The study suggests that the government industrial and antitrust policies should actively promote integrated business group models, including the international ones, as long as corporate and national interests are reconciled. It is reported that integrated business groups account for 15% of the total industrial output, respectively, integrated business groups are mesoeconomic entities representing a new type of a social institution that attempts to forecast supply and demand in a particular world market segment and implements its predictive outcomes through big innovations.

Keywords: integrated business group; transnational corporation; institutionalization.
інноваційний рівень відповідно до вимог діджиталізації ринку. Виявлено основні характеристики формування інтегрованих бізнес-груп як форми виву новых інституційних структур України. Визначено цілі їх розвитку, необхідні для здійснення трансформаційних змін, виявлено основні фактори, що детермінують характер реорганізації та реструктуризації підприємств, що входять до складу інтегрованих бізнес-груп. З огляду на те, що інтегровані бізнес-групи розглядаються як основна руїніна сила економіки України, зазначено, що державна промислова та антимонопольна політика мають активно сприяти посиленню їх позицій, у тому числі й міжнародних, за умови узгодження корпоративних та національних інтересів. З’ясовано, що на інтегровані бізнес-групи припадає 15% загального промислового випуску, відповідно, інтегровані бізнес-групи є мезоекономічним суб’єктом та являють собою соціальний інститут нового типу, що прогнозує попит та пропозицію на конкретному сегменті світового ринку та реалізує свої прогнозні рішення за допомогою великих нововведень.

Ключові слова: інтегрована бізнес-група; транснаціональна корпорація; інституціоналізація.

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ФОРМИРОВАНИЕ ИНТЕГРИРОВАННЫХ БИЗНЕС-ГРУПП В УКРАИНЕ
КАК ФОРМА ПРОЯВЛЕНИЯ НОВЫХ ИНСТИТУЦИОНАЛЬНЫХ СТРУКТУР

Статья посвящена современным проблемам развития интегрированных бизнес-структур, связанных с потребностями модернизации ведущих отраслей промышленности на инновационной основе, структурной перестройки промышленности, сокращения технологического отставания и развития высокотехнологического производства. Отмечается, что одной из важнейших задач модернизации должно стать достижение высокой конкурентоспособности национальной экономики, что позволит занять ведушие позиции в современном глобализированном мире. В исследовании использовался широкий инструментарий научного исследования, в частности, методы анализа, синтеза, обобщения, сравнения – для определения сущности, экономического содержания, структурных составляющих и факторов, влияющих на формирование интегрированных бизнес-структур в Украине; структурно-функциональный анализ – для идентификации необходимых институциональных структур; методы интегрального оценивания – для исследования зарубежного опыта формирования интегрированных бизнес-структур. Доказано, что тенденции и особенности развития предприятий в составе интегрированных бизнес-структур переходят на новый инновационный уровень в соответствии с требованиями диджиталізації рынка. Выведены основные характеристики формирования интегрированных бизнес-структур как формы проявления новых институциональных структур Украины. Определены цели их развития, необходимые для осуществления трансформационных изменений, выявлены основные факторы, детерминирующие характер реорганизаций и реструктуризации предприятий, входящих в состав интегрированных бизнес-структур. С учётом того, что интегрированные бизнес-группы рассматриваются как основная движущая сила экономики Украины, отмечено, что государственная промышленная и антимонопольная политика должны активно способствовать усилению их позиций, в том числе и международных, на основе согласования корпоративных и национальных интересов. Установлено, что на интегрированные бизнес-группы приходится 15% общего промышленного выпуска, соответственно, интегрированные бизнес-группы являются мезоэкономическим субъектом и представляют собой социальный институт нового типа, прогнозирующий спрос и предложение на конкретном сегменте мирового рынка и реализующий свои прогнозные решения благодаря большим нововведениям.
Introduction. Under the conditions of increasing complexity of the structure of the economy and the increasing processes of globalization as one of the main forms of manifestation of new institutional structures in the real sector of the economy can be identified integrated business structures (IBS), most successfully combine factors of production, systematizing and optimizing them, acting as active participants in the market. In Ukraine they are represented by the largest structures of companies, associations of medium and small enterprises.

In the economic literature integrated business structures are understood as a fairly wide range of associations of enterprises – from contractual and cooperative to tightly integrated vertical ones. A clearer notion of IBS was introduced by L. Fedulov: IBS is a set of enterprises, usually from different industries and sectors, which, due to the established links between them, regularly act as a single economic agent in some important aspects of activity [1]. Consequently, integrated business structures can be understood as associations more rigid than industrial networks and less rigid than vertically integrated firms. Enterprises included in the integrated business structure, according to L. Golovkov, retain legal independence, but are managed from a single center, and therefore lose their economic independence [2].

From the point of view of Y. Umantsiv, integrated business structures are a form of new institutional structures in the form of a set of interrelated entities that carry out their production, commercial activities in accordance with the existing internal rules and laws, as well as external in relation to them norms, rules and regulations that determine their internal organization [3].

The very notion of "Integrated business structure" implies the existence of appropriate principles of integration – the basis on which enterprises are united into a structure. In Ukraine, there are two integrating principles (R. Bagley), which should be separated: based on ownership and based on real management not secured by formal property rights. Accordingly, the integration of enterprises into structures can take place on the basis of the principle of ownership and the principle of management to a greater or lesser extent [4]. One of the principles may dominate or they may be in balance.

In general (A. Kushneruk), the competitiveness of the national economy is understood as the ability to sell products at market prices with normal profits [5]. Thus distinction is made between external and internal competitiveness. External competitiveness characterizes success of sale of the goods and services in the world markets, presence in structure of export of sufficient quantity of the goods and services providing stability of balance of payments of the country. In this case external competitiveness is conditioned by internal competitiveness: domestic sales are a prerequisite of external competitiveness but not a guarantee of it.

At present Ukraine's external competitiveness is such (Yu. Yukhnovska), that the country's share in the world export of goods and services is low (2.5%) [6]. The technological lag between Ukraine and the West continues to grow: production assets are aging, companies lack the latest high-tech equipment. This is confirmed by statistical data: the resource of technological base of the national economy (machinery and equipment) is exhausted by more than 45% (in the power industry even more – 60%) and has reached a critical level. The share of fully worn-out fixed assets in the mining sector is 21.9%, in the manufacturing industry – 17.0%. The average age of the equipment reaches about 30 years [7].

The worn-out and obsolete equipment not only is not capable to provide release of a competitive product, but also leads to decrease in labor productivity (O. Nifatova). On the value of gross domestic product per one employed (this indicator characterizes the productivity of the
national economy as a whole) Ukraine is approximately 4 times inferior to the USA and 3 times inferior to Europe [7].

Internal competitiveness (I. Myagkikh) is a level of sale of goods on the domestic market in competition with imports and other domestic goods, which together with exports provides the necessary level of employment and income of the population [8]. The internal competitiveness of the Ukrainian economy, from the point of view of L. Ganushchak-Єfimenko, I. Kobernik, is also quite low, as evidenced by data on the sales volume of domestic producers: among those who produce key food products, domestic producers prevail in 12 of 17 markets [9]. Restructuring in medium and large enterprises (L. Yastrubetskaya, M. Yaremik) is more extensive and is carried out in order to align strategic transactions with the economic development strategy of corporations in the direction of increasing enterprise assets [10]. Thus, the purpose of the study is to investigate the process of formation of integrated business groups in Ukraine as a form of manifestation of new institutional structures.

Materials and methods. The theoretical and methodological basis of the study are the conceptual provisions of fundamental and applied scientific works of domestic and foreign authors on the problems of integration. Theoretical and methodological basis is a set of principles, methods of scientific research, methods of analysis, synthesis, generalization, comparison to determine the essence, content, types, factors of formation and effects of functioning of integrated business structures in Ukraine, generalization of theoretical provisions and principles of formation of integrated business in Ukraine; structural and functional analysis, integral evaluation – to analyze foreign and experience of formation of integrated business structures.

Results and discussion. Enterprise associations were created not only to perform economic (achieving the effect of increasing scale, protection and lobbying of business interests) and political functions, but also such associations were created for the joint development of major projects that are beyond the power of one organization: for example, the development of large deposits (for mining companies) or the granting of large loans (banking consortia). In fact, the IBS in Ukraine is the real power that drives our economy. Integrated business structures are diverse in the nature of specialization, forms of connection between companies, the status of the managing center, the scale and nature of activities. Here is a conventional classification of integrated business structures (Fig. 1).

As practice shows, the combination of the ownership principle with a single production management is a feature of concerns – structures of enterprises united not only financially, but also technologically. Diversified conglomerates without technological ties were created according to the principle of ownership. The conglomerate includes technologically separated individual enterprises belonging to different industries and not connected by joint production. The ownership structure for such associations is the basis, the scheme for the formation of the structure and management mechanisms. Financial control is a necessary and sufficient condition for real management.

The majority of existing conglomerates were created in the process of privatization. Regardless of the presence of technological interconnections and production feasibility, enterprises with valuable assets (patents, technological developments, land, mineral deposits, and so on) were bought for the purpose of profit or subsequent resale. A consulting firm, a construction company, a grocery store and a pulp and paper mill could end up in the hands of one owner (or a structure of joint owners), that is, within the same IBS, if they were all profitable enough acquisitions. Enterprises were seen as components of an investment portfolio rather than actual production. The main integrating principle for conglomerates, respectively, is common ownership, which has nothing to do with a unified production and technological management. Large IBS (with the exception of structures in the extractive and resource industries and natural monopolies) and many registered financial-industrial structures are organized in the form of conglomerates.
Fig. 1. Classification of integrated business structures

Integrated business structures

By specialization

With product specialization (horizontally integrated companies producing homogeneous goods and services in different regions and countries)

With segment specialization (vertically integrated companies producing a wide range of heterogeneous goods and services for a particular market segment)

Conglomerates (without clear specialization, including technologically unrelated companies from different industries)

By form of company communication

Based on the right in rem (the center owns a controlling block of shares or is a major creditor thereof)

Based on intangible property rights (the center provides members with a trademark, licenses, not being the owner of their property)

Based on contract law (the center provides management and other services to group members without owning their assets)

By scope of business

Regional

National

Transnational

By the content of activity

Manufacturing (produce goods and services at their facilities)

Shell (acting as general contractors, researching demand, ordering goods and services on the side and selling them on their own behalf)
An IBS is a form of association of enterprises for which economic science has not proposed clear (at least in theoretical form) management structures. If for the firm – as a single enterprise – there are elaborated and thoroughly studied linear-functional, matrix, divisional and other management structures, for the structure of IBS such structures work only to a limited extent or do not work at all. For a number of associations – the so-called cooperative associations, contractual associations, associations and unions, strategic alliances (consortiums) – common management structures are not required: enterprises continue their independent activities, interacting only within the framework of a joint project. But to unite financially interdependent enterprises, coordinated joint management is more than necessary. And there are mechanisms for it as well – those financial ties.

The presence within the IBS of unformalized interactions that are decisive for the activities of the structure generates a huge number of management problems. At the same time, with the development of large domestic companies their role in the modernization of the country will increase, because it is the IBS that are really and quite successfully included in the processes of globalization, it is them that concentrate the resources of national development: professional personnel, managerial competence, advanced technologies and financial resources.

The main advantage of the IBS is that their systematically organized management covers not a single stage of the technological cycle, but the entire cycle – from the development of a new product to the production and sale of the final product. However, the development of IBS increases the danger of turning them into monopolies, and the problem of reconciling the interests of shareholders, investors, managers, partners and employees of the company becomes more acute. There are negative trends of economic and political domination of large IBS, concentrated around the extraction and sale of raw materials.

Non-transparency for Ukrainian IBS concerns both the ownership structure and management principles. Persons not involved in the activities of IBS can hardly establish how the activities of a particular business structure are organized by formal signs (the prescribed composition of the management board, board of directors, shareholders' meetings, the chief executive body). The creation of a governing center where the formal management would coincide with the real management in Ukrainian IBS is complicated, first of all, by the non-transparency of the ownership and management structure:

- inability to trace in a formal way who is the decision maker (which individuals and organizations actually manage the IBS);
- difficulties in determining the real ownership structure in the IBS;
- the lack of a normal accounting and reporting system.

The reasons for lack of transparency can be divided into two structures: economic and social. Among the economic ones is the impossibility to trace the real owners, the owners of the enterprise. Complex schemes to minimize taxation lead to the overgrowth of the main organization with a huge number of offshore firms. Ownership of an enterprise, as a rule, is carried out through several levels. Many people who really influence the decision-making process, business management, the distribution of financial results, continue to remain "in the shadows". They have no desire to "show themselves", and the historically established connections, relationships and management institutions allow them to conduct their business while remaining unnoticed.

The reasons for this lack of transparency are primarily due to:
- the impossibility for most owners to legally declare their property and income from it, due to the illegality of the ways in which they acquired this property;
- the negative attitude of society towards individual high-income fellow citizens, combined with the general criminality of the environment, forces the latter to conceal their financial situation for security purposes. Thus, non-transparency is the way most companies in Ukraine exist.
Ukraine has left not only the USA and Europe but also South Korea far behind by economic concentration. According to experts the biggest holdings are closely involved in the integration of the country into the global economy. The world economy in a number of industries (aviation, automobile, aluminum, pharmaceuticals, power engineering, shipbuilding, etc.) is dominated by several large transnational companies (TNC). At present they represent a single IBS, international, rather than national in terms of capital structure and managerial personnel. Alliances are developing, combining resources, including those of competing companies. It is characteristic of the development of competition in the field of computer science, which is dominated by several IBS. Intel, for example, was forced, under the conditions of fierce competition, to give up the Pentium-4 processor technology, which cost $35 billion. Together with Hewlett-Packard, Oracle, Sun and 14 other large companies it created the alliance for corporate grid-technologies (distributed computing networks, uniting many computers and databases through high-speed communication channels) (Table 1).

Table 1

<table>
<thead>
<tr>
<th>Basic integrated corporate structures</th>
<th>Types of economic activity of enterprises that are part of corporate structures</th>
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<td>2019 (main list)</td>
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<tr>
<td>Donbass Industrial Union Corporation</td>
<td>- metallurgy;</td>
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<td></td>
<td>- mechanical engineering;</td>
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<td>- ore beneficiation;</td>
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<td></td>
<td>- others (construction, hotel business, exchanges)</td>
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<tr>
<td>UKRSIB Group</td>
<td>- construction;</td>
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<td></td>
<td>- food Industry;</td>
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<td></td>
<td>- metallurgy;</td>
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<td></td>
<td>- chemical production</td>
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<tr>
<td>SYSTEM CAPITAL MANAGEMENT Company</td>
<td>- metallurgy;</td>
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<td></td>
<td>- coke production;</td>
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<td>- commercial banks;</td>
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<td>- providing mass information;</td>
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<td>- food industry;</td>
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<td></td>
<td>- others (digital communication, hotel business, insurance business)</td>
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<tr>
<td>Research and Production Investment Corporation &quot;INTERPIPE&quot;</td>
<td>- commercial banks;</td>
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<td></td>
<td>- mechanical engineering;</td>
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<td>- mass media;</td>
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<td>- agriculture;</td>
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<td>- production of pipes;</td>
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<td>- others (metallurgy, ferroalloys, secondary alloys)</td>
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The functions of an integrated business structure in the economy can be formulated as follows:

- expansion of the economic space in which the members of the organization can effectively operate (growth of resource capital);
- reduction of transaction costs through the use of synergies;
- diversification of spheres of activity, leading to a reduction both of investment risks for the business-structure as a whole, and the entrepreneurial risks of each of its participants;
- increase in culture of management at the expense of unification of intellectual efforts of management and specialized research organizations, participants of the group (potential growth of human capital).

At the present stage the formed integrated business groups are characterized by the following main features:

- high sectorial diversification: the emergence of large business entities in most sectors of material production and services;
- construction of integrated structures along the technological value chain, related diversification;
- entering the world market and building transnational corporations.

In general, the prevailing conditions for the development of integrated business structures are characterized by continuous economic growth, favorable prices for Ukrainian export goods, financial and fiscal stability, and an increase in foreign investment. It entailed a multiple increase in the number of business structures. International experts estimate that in 2022 the 10 largest integrated business structures will account for 38.7% of industrial output, 21% of all investments into fixed assets, and 31% of exports. The average labor productivity in these holdings is 3.7 times higher than in average industrial enterprises. At present, one possible development option for some IBS may be to increase the rigidity of ties and gradually transform IBS into public corporations – vertically interconnected hierarchical firms. For many overly diversified conglomerates, gradual disintegration is the most likely prospect. But a large number of stable IBS do not seek to fully merge and become corporations. The form in which they exist today, when the legal independence...
of enterprises is preserved (which allows for relatively painless creation and dissolution of associations), is the most acceptable to them. In this case there is a financial and economic dependence (sometimes hidden, which is especially convenient for Ukraine), which allows you to create a unified management structure.

**Conclusion.** In general, it should be noted that the enterprise (firm) at different historical stages can be considered as a constantly changing in the dynamics of production and commercial structure, which at the present stage of development of social and economic relations in its majority turned into a joint stock company (corporation), later into an integrated business structure. The main advantages of an integrated business structure were the possibility of radical restructuring of production by attracting new types of equipment and technology, better conditions for attracting financial resources, greater opportunities to create new goods and conquer markets, less risk of bankruptcy, etc. Transformation processes in the form of restructuring and reorganization of enterprises cover a wide range of institutional processes of the corporate sector of the country's economy. The feasibility of corporate restructuring in the form of mergers, acquisitions, mergers, etc. of enterprises today has no unequivocal assessment. On the one hand – it is a positive consequence of the manifestation of market discipline, where competition in the market can provide the transition of one corporation to another, which implements a more effective development strategy. Moreover, as global and domestic experience shows, the reorganization of enterprises often takes place in order to gain a more reliable monopoly position of a prospective corporation. In Ukraine, these processes have not yet stabilized, where trends of fragmentation, unbundling of enterprises prevail over the integration. Therefore, an important aspect of further research is to determine the role and impact of transaction costs on the transformation processes of enterprises and the formation of corporate structures as a whole.

**References**


