Integration as a Corporate Strategy

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Keywords: Corporate Governance, Corporation, Corporate Strategy, Integration, Competitiveness, Corporate Communications, Business Units, Specialization, Integrated Management System, Corporate Resources, Performance Efficiency.

Abstract. This article is devoted to consideration of the corporate integration strategy, determination of its directions and problems. The article also discusses the requirements for the effectiveness of a corporate integration strategy, analyzes approaches to creating an integrated management system. A separate description is given of the stages of creating an integrated management system and methods for assessing the effectiveness of a corporate integration strategy. It was separately noted that in order to create stable financial flows from operating activities, the corporate structure should effectively manage the competitiveness of its business units and organize high-quality bilateral corporate communications. It is ascertained that the corporate integration strategy is most effective if the business combination leads to the expansion of cooperation and specialization of production.

Methods of Research

The investigation included the following stages:
1. Analysis of the integration as a corporate strategy.
2. Description of the approaches to creation of an integrated management system.
3. Overview of the methods for smoothing out contradictions of implementing the integration strategy.
5. Conclusions.

1. Introduction

The strategy of a modern corporation is understood as a plan of action for a relatively long term, which allows the company to create value through a certain coordination of its actions in local and international markets. Based on this definition, three important points can be distinguished:
- value creation is the final goal of the strategy of a modern corporate structure;
- A modern corporation is an entrepreneurial structure that operates in various markets and involves geographical and vertical separation;
- The corporation must manage its business units and coordinate its activities.

It follows that the corporation's strategy involves a much larger set of actions than the directives of the head office. Thus, the corporate strategy should unite all the corporation's businesses and provide them with the movement of company resources to achieve a common goal, which is achieved through the integration strategy.

2. Analysis of Corporate Integration Strategy

Regardless of the corporate strategy chosen by the management of the company, the bulk of it is implemented in the business units of the corporation through an increase in their ability to produce and supply goods and services to the end consumer [1]. Therefore, in order to maintain its business stability for a long time, the corporation must manage the competitiveness of its business units through effective corporate communications, which should be bilateral in nature (Fig. 1). The key issue for the management of the corporation is the issue of growth or decrease in the effectiveness of business units as a result of work in the perimeter of the corporate structure. Based on the results of the resolving of this issue, decisions are made on the integration/disintegration of the corporation's businesses.

For a corporate strategy to be effective, a harmonious combination of three components is needed that form a competitive advantage that creates economic value for the corporation. Resources, business units, and corporate governance mechanisms provide the foundation for a corporate strategy. Being congruent with the vision and corresponding goals and objectives, this foundation can create a corporate advantage that justifies the corporation's activity as an enterprise engaged in many businesses [2].

![Figure 1. Bilateral nature of corporate communications between head office and business units.](image)

One of the logical directions of the strategic development of corporations is integration, which can be the basis of corporate strategy. Integration is understood as the union of economic entities, the deepening of their interaction and the expansion of the relationship between them. The manifestation of integration as a result of the strategy can be seen in the expansion and deepening of production and technological connections, the joint exploitation of resources, the formation of combined capital, the creation of favorable working conditions for each other. The integration strategy is most effective if the merger of economic entities leads to an increase in the specialization and cooperation of productions [3].

3. Contradictions of Implementing the Integration Strategy and Their Smoothing

Integration into a single corporate structure of industrial, innovative, financial and other companies seems to us a complex procedure, during which we have to solve various problems. However, the main problem highlighted by researchers is the competition that arises for corporate resources between the merging companies. And the corporate integration strategy is designed to most effectively solve this problem.
Integration, as a corporate strategy, is aimed at strengthening corporate communications between different businesses and building a single vertical of business strategies, united by one corporate strategy. Integration balances the contradictions in the growth of corporate business units, improves the coherence of business guidelines, clarifies strategic priorities and facilitates the individual rethinking of organizational contradictions.

The efforts of corporate management for integration are often the most difficult, as they involve the owners of the resources of the corporation in contradictions, and initially the strategic result from the integration of businesses is very difficult to predict. Moreover, one of the common mistakes of corporate leadership is the lack of congruence of the integration strategy with other strategic plans and objectives of the corporation [5-8].

To smooth out contradictions when implementing integration strategies corporate governance can:
- form new structural units (project offices, coordination centers, etc.);
- reorganize corporate reporting;
- review the motivation system;
- expand the corporate control system.

4. Stages of Formation and Methods of Assessment of the Effectiveness of a Corporate Integration Strategy

One of the results of the corporate integration strategy is the formation of an integrated management system (IMS), which is understood as a corporate management system that meets the set of requirements of 2 or more international standards (ISO) in the field of management. The integrated management system functions as a whole and is aimed at achieving the goals of the corporate strategy. Applying of ISO requirements for the stakeholder requests management system allows to level out conflicts of interests and duplication of functions. Scientists note that most often to create integrated management systems, standards in the field of quality (SQM), labor protection, information security, ecology are applied (Fig.2).

![Figure 2. Approaches to creating an integrated management system.](image)

Let's consider the typical stages of the formation of an integrated management system:
1. Decision-making on the creation of an integrated management system within the corporation.
2. Organization of an audit for compliance with ISO requirements of existing corporate governance mechanisms.

3. Arrangement of training for corporation personnel in the requirements of integrated management system standards.

4. Formation of a plan for creating an integrated management system.

5. Development and implementation of the system.

6. Launch and control of the integrated management system.

7. Certification of an integrated management system.

A prerequisite for managing a corporate integration strategy is to evaluate its effectiveness. The following basic methods are considered in the scientific literature [4]:

1. Traditional financial techniques—a combination of economic value added (EVA), total cost of ownership (TCO), total economic impact (TEI). Estimated cost, benefits and flexibility of integration. Cost is determined using the full cost of ownership methodology, benefits are evaluated in terms of cost and strategic investments, flexibility is determined using options and futures. This group of methods can also include a quick business case, etc.

2. Qualitative methods—are used by the corporation management as a complement to quantitative methods with subjective and qualitative metrics that make it possible to understand the value of the corresponding objects and processes. Here we can include methods of competitive and strategic analysis, a system of balanced indicators, portfolio management, etc.

3. Methods based on the theory of statistics. Here, statistical and mathematical models are used that make it possible to assess corporate integration risks.

It should be noted that any of the above methods is sufficiently subjective, as it will meet the interests of individual participants in the integration processes. Therefore, it seems appropriate to us to use several techniques at the same time, which will allow us to evaluate precisely strategic effectiveness.

Conclusion

As a conclusion, we can assume that implementing a corporate strategy that aims to integrate several businesses is a complex process that affects almost the entire corporate structure and requires a large number of resources. The multidimensional nature and wide scope of the integration strategy involves the selection and careful consideration of the particular areas of this strategy related to integrated management systems, performance evaluation, and so on. But we can confidently assume that a well-built integration strategy allows the corporation to enhance competitiveness and obtain significant economic benefits.

References


