

INTEGRATED CORPORATE STRUCTURES AS AN OBJECT OF CORPORATE MANAGEMENT AND CONTROL

© 2008 A.S. Gorkiy*

Keywords: management, corporations, corporate management, the corporate control, the integrated corporate structures

Development and implementation of integrated corporate structures is a way of realizing the company potential in a more efficient way. In conditions of internalization and integration of the global world market this type of business organizing becomes more and more frequent. According to these changes there is an increase in the role of supervision and management systems in these structures.

Adverse economic and legal environment where Russian enterprises exist, become a reason why the value of being a shareholder of the company for any interested party is often not connected to the expected dividend growth and currency value (as in the western practice), but with possibility of retrieving some personal benefits from control. With this we also normally have a significant increase in agency costs.

The high agency costs, of course, undermine the market of the company shares, displacing investors disinterested in control. As a result the share capital is concentrated in the hands of interest groups and some subsequent conflicts over the redistribution of property appear. The subject of the conflict usually is the same - private benefits of control¹.

We can not exclude that the removal from the private control benefits the underlying formation of the financial base of Russian corporations as well. For example, researchers from the Institute of the Transition Economy believe that the unifying tendencies of Russian enterprises are often poorly justified from an economic point of view, and many corporations are synthetic and political creatures.

World experience shows that the only path to success in the establishment of a competitive industrial structure is the concentration of capital and production capacity, vertical integration by the technological principles. Bigger sizes increase formalization of the organization and reduce the potential for organizational change. Such rigidities, of course, are the lack of large organizations, but their advantages still are a significant power in the market and a good resource base. Accordingly, a small company can understand the need to change faster than a large corporation,

but not be able to implement them because of the low resource base².

Analyzing the situation in the domestic economy, it can be concluded that the search for optimal production and management structures has led to the emergence and development of organizational forms, based on various combinations of small, medium and large businesses. This combined business organization must meet three main requirements: efficiency in terms of the policy of entrepreneurship, constant renewal, providing an adequate level of response to changing internal and external factors.

The most important result of these efforts is an integration process in companies in the formation of complete process chain from extraction of resources to implement the final product, as well as subcontracts with more adaptive and therefore effective for small and medium enterprises.

In a business development towards the creation of all kinds of associations lead the processes of corporatization. Many researchers and, in particular, J. K. Galbraith, determined the industrial system as part of the economy, which is characterized by the activities of corporate structures.

In domestic economic literature there is no universally accepted definition of "integrated corporate structure" (ICS). In this context, the term is used to refer to the business entity formed by several legal and (or) individuals, each of which can be considered as a separate economic entity associated with the other actors by property, a joint business, common economic interests.

In order to identify characteristics of structuring, kinds of integrated corporate structures are systemized and proposed classification of ICS, developed using the tools of morphological analy-

* Artem S. Gorkiy, post-graduate student of Samara State University of Economics, Department of Accounting and Economic Analysis.

sis by eight classifications, such as the purpose of creation, the purpose of the operation, the area of operation, the sphere of operation, the degree of formalization, the nature of integration, the dominance of interest participants, the type of capital.

A feature of the ICS management is that the object of management is, often, a combination of administrative independence from the other economically interacting agents, each with its own function. Managing the organizational structure serves control functions, which may include gathering information on the operation of enterprises, the definition of strategy, planning, manufacturing (service), motivation, supervision, distribution of profits, interaction with the fiscal authorities.

The most relevant modes of interaction between enterprises in modern Russian market conditions are different forms of corporate alliances with vertically integrated structures of business and management. A feature of this approach is that, unlike the separate businesses, where communications with the external environment occurs only from the standpoint of just one enterprise, and unlike other options, where the external environment is perceived to be unnecessary for the development of the individual participants, creation of a vertically integrated structure relationship with the participants and between them and external environment, is a subject of corporative goals and objectives³.

According to this scheme, in some specific periods of time, concrete participants may even incur losses, but in the entire corporate merger should be pursued economic effect, which is further redistributed in proportion to the contribution of each participant and compensates for losses incurred prior to selected participants.

Such integration increases the production efficiency by reducing transaction costs and reduce indirect taxation intermediate products manufacturing.

The high liquidity of products, substantial capital base and competitiveness of the production serve to ensure that foreign investors consider a vertically integrated structure (VIS) as a reliable partner, which projects can be confidently financed. In its turn, VIS can ensure return for these investments.

Evidence that the top leadership of Russia has sought to assist in the development of the domestic competitive industry is the fact that Russian ex-President Vladimir Putin holds annual meet-

ings with representatives of business. These meetings are also proof that with the removal of all line ministries and departments in the country, a new form of interaction between government and business is developing, which would replace the principle of sectoral management of the economy, characterized by the planned economy. So it makes clear that businesses can influence the situation in the sectors of the economy. The product of this interaction, according to the authors' opinion, should be harmonization of the positions of state and big business in an enabling environment for the formation of an effective structure of the economy.

It should be noted that the same kind of meeting, which discussed the internal and external economic issues and trends, regularly held in all developed countries and unofficially have become universally institutes of economic power.

To illustrate the scope of ongoing integration process here can be mentioned the structural changes that have occurred in recent years in the largest corporations in the world.

In Russia, the processes of production and capital centralization are occurring, especially in export-oriented sectors of the domestic industry.

The reason for this is that competition in world markets of raw materials and intermediate products from foreign manufacturers, such as metal producers, forces Russian metallurgists to take measures to improve the efficiency of production, primarily through consolidation by centralizing a number of independent productions. So, the centralization of capital occurs on the way the horizontal and vertical integration.

The objectives of management companies of Russian corporations include strategy of development, marketing, consolidation of assets, corporate finance, control and execution of profitable investment programs to modernize and expand production, the interaction with government and public relations, as well as the acquisition of new assets.

On the first plan there came the questions of development - the construction, acquisition of new assets, the sale of those assets that are not strategic to the company. All this required the empowerment of second-tier leaders of the company and as a result of the transition of such companies in the divisional management structure.

Under the divisional structure of governance is understood the organization, based on the per-

formance of large self-supply-management units (divisions) and their corresponding levels of government in the submission of these units quickly - the production of self-reliance and to shift to the level of responsibility for profit. The main profile companies of this type are legally remaining independent, retaining the organizational form of JSC, but all support branches and services are centralized. Former directors of the corporation lost their statuses in the scheme and carry out their duties as the executive "managing directors", who are employees of the management company.

Currently, for example, the corporation "RUS-AL" oversees the production of more than 70% of Russian and 10% of the world's aluminum. In accordance with the requirements of Antimonopoly Department of Russia, in the statutory capital of the corporation have been put actual aluminum assets (shares of 10 companies), previously processed in offshore companies.

Thus, according to accepted western practice, in a number of Russian companies was produced the separation of the functions of ownership and management company. In order to create the western model, there is usually appointed a foreign top-manager for the post of general manager of the company.. Joining with foreign partners allowed them to withdraw shares of Russian companies in international markets, increased the confidence of foreign companies and thus greatly increase the market value of the company.

So, in the early twenty-first century, there is a qualitatively new stage in the development of aluminum industry in Russia, involving the creation of large vertically integrated corporations. It is this form of business organization that meets the needs of today's market and underpins the company's competitiveness.

Considering control as a tool in corporate governance, there are three areas:

- ◆ manage the property or shares (shares in the authorized capital);
- ◆ management - marketing processes;
- ◆ management of financial flows.

Based on these fronts, the following forms of corporate control can be implemented:

- ◆ equity control, or control over the property. The ability to ensure the adoption or rejection of the outcome of the subject of governance, including in the composition of the board of directors and collective executive, as well as the appointment of a sole executive.

- ◆ supply-side controls. Control over the production and marketing.

Financial control. Making an impact on the distribution of financial flows.

Designed by a model of corporate control in the management of the corporation requires assignment to critical processes in the management of corporate strategic, operational and financial management, quality management, personnel management, information management, marketing management, innovation management, security management, etc.

Corporate control, being an integral part of corporate governance, links all of these processes among themselves. The nature of share ownership defines the right of shareholders control of the activities of the organization. This is due to the impact of ownership on the economic behavior of the organization. Otherwise, in whose hands control is kept and how it is managed to be fully realize, is up to its effectiveness for the owners.

Through the control function all the management functions are associated. It allows them to withstand the desired direction of the organization and to correct inaccurate solutions.

The functions of supervision and regulation in the management of a corporate-type association is a flexible tool for its progress which is continuously (in real time for each production unit) introduced in the strict framework, set by plans to obtain revenues, profits, market share and value of business.

¹ *Hrabova I.* Corporate management. M., 2005.

² *Gaughan P.A.* Mergers, Acquisitions, and Corporate restructurings: 3rd edition. M., 2007.

³ *Vighansky O.* Strategic management. 2nd edition. M., 2005.