

HORIZONTAL INTEGRATION OF PRODUCTION CAPITAL IN MODERN RUSSIA: PROS AND CONS

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Keywords: economy of modern Russia, production capital, horizontal integration, integration directions, results of the horizontal integration of production capital.

To discover pros and cons of production capital integration the author uses actual and statistical data of the recent years, which has made it possible to give well-founded description of the process in modern Russia.

Production capital integration processes in modern Russia transform market environment. Human, material, technical, intellectual, informational and organizational elements are moving by means of integration ties. Economic sense of the integration is in the socialization of labour and production and forming of a brand new uniting structure. This process has its positive and negative sides for the participants of integration and public welfare, which we've tried to examine in this article using horizontal integration of production capital in modern Russia as an example.

Burst of the horizontal merges in recent years (see table) is caused by the fact that they give the most evident advantages and are also an alternative to the organic growth.

Not all of the bargains that by formal signs are horizontal merges should be identified as horizontal integration of production capital. Horizontal integration of production capital implies merges of the capitals of the same industry with the same production characteristics. In modern Russia the question is not only about strictly specialized associations manufacturing similar products. The concept of horizontal integration of production capital includes associations based on the nature of production and technological ties. It can be viewed in a wider way, including not only enterprises of the same industry, but also from related industries, technologically linked with each other and merging of the enterprises based on the form

and type of consumed products. Horizontal integration implies merges of the enterprises of the same industry manufacturing similar products, using similar technologies, having the capitals with the same production characteristics and also establishment of close cooperation between these enterprises "horizontally", i.e. considering future cooperation.

In the case of horizontal integration there are no merges of the enterprises of the whole production cycle, but accumulation of one of its stages within the limits of a new market formation through consolidation of the production facilities, production chains, sharing of technologies, organization of management and inclusion of the enterprise in the information field and integration of the human capital. The most common alternative to horizontal integration in the world is organic growth. However the situation in Russia is a bit different.

Transnational companies were the pioneers of the horizontal integration of the production capital in Russia. They knew about this instrument for a long time and were using it extensively to enter new markets. For example, in food industry 13 out of 40 companies in the Expert-400 rating of 2007 year are horizontally integrated subdivisions of TNK. In 2004 Russian subdivisions of "Procter and Gamble" and "Henkel" produced 63.7% of Russian synthetic cleaners. Similar situation is now in tyre industry. Michelin, Nokian factories are already functioning on the territory

**Integration directions in Russia during,
% of total number of bargains**

Integration direction	Y2004	Y2006	Y2007	Y2008
Horizontal	64	81,1	71,8	61,1
Vertical	15	9,9	8,0	5,8
Diversified	21	9	20,2	33,1

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of Russia. Russian companies are using the same strategy to enter foreign markets, e.g. chemical industry. In 2001 “Acron” holding purchased one of the large chemical enterprises of China. It allowed the company to secure its positions on the strategically important Chinese market. Company “Eurohim” acted in a similar way annexing Lithuanian company “Lifosa”.

The expansion of Russian production holdings and the appearance of foreign corpora-

tions in domestic market due to the acquisition of the regional factories has its pros and cons. Some of the specialists think that it makes several companies too strong and makes local manufacturers unable to compete with the enterprises from the large holdings forcing them out to the outskirts of the market.

Based on the data from: www.mergers.ru, www.kpmg.ru, www.ma-journal.ru, www.raexpert.ru

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