

THEORETICAL ASPECTS OF INTEGRATION DEVELOPMENT IN AGRO-INDUSTRIAL COMPLEX

N.V.PARUBOK post-graduate student
Uman National University of Horticulture

Basic approaches to rendering the essence of the term “integration” were studied, the theories which substantiate its necessity were elucidated. The kinds, types, directions and organizational-economic forms of integration were considered, positive results of the integrated sector of agrarian-industrial production were researched.

Wider integration processes which are based on the enhancement of economic functions of the agents of economic activity are the specific feature of modern conditions of development of market relations in agro-industrial production. National and foreign experience proves higher adaptation and efficiency in market conditions of the integrated structures, which unite all branches from producing farm commodities to selling them to final consumers. This stipulates the necessity of development of integration, determines its positive impact on the efficiency of the real sector of economy and solving social-economic problems. The AIC integration creates the opportunities to regularly supply processing enterprises with raw materials, use financial and labor resources effectively, fully and evenly utilize production means, reduce transaction expenses, improve the quality of management and attract additional capital.

An important contribution into the researching of different aspects of integration and development of integration processes in agro-industrial production was made by national and foreign researchers: V.H.Andriyчук, I.M. Zelisko, Ye.A. Kobets, M.Yu. Kodenska, O.V. Krysal'skii, M.Y. Malik, S.O. Nikitchenko, Yu.O. Nesterchuk, O.A. Radionova, P.T. Sabluk, A.N. Sterlihoва, V.V. Yurchyshyn. However, a lot of aspects of this range of problems are still the object for discussions and need further development.

Research methodology. Works by Ukrainian and foreign researchers-economists on the issues of the integration development and formation of effective integrated structures are the methodological and theoretical basis for the research. Monographic method and abstract-logical approach to the study of theoretical and practical problems of the development of integration processes in AIC were applied in the process of the research.

Research results. In order to stabilize market environment and improve the results of economic activity of enterprises belonging to AIC, the process of their harmonization, adaptation, merger, that is the integration process, is taking place. The term “integration” (from Latin «integer» – complete, total) generally means consolidation, interpenetration (fig. 1). It has come into use in many spheres of science. Thus, in real sector of economy, as a rule, integration implies uniting the

agents of economic activity, enhancement of their cooperation, development of relations among them. Economic integration, acquiring wider application in recent years, shows itself both on the level of national economy and between the agents of entrepreneurial activity. [2, P. 146]. The character of its manifestation is in widening and deepening of productive and technological ties, common use of resources, pooling of capital etc.

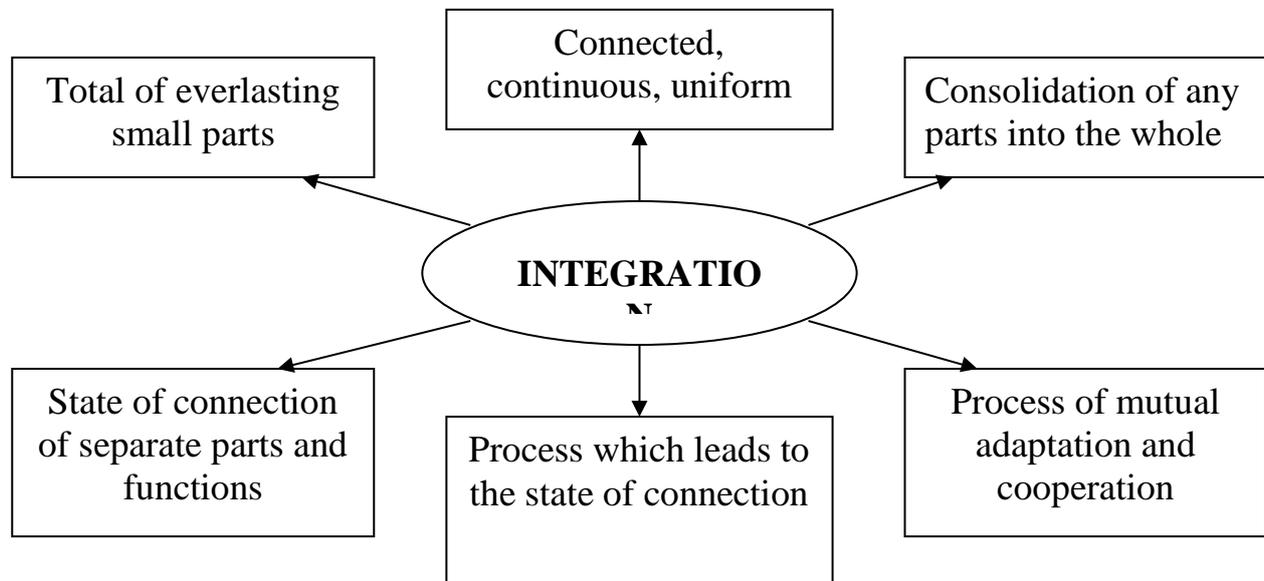


Fig. 1. General characteristics of the term “integration”
(after A.M. Sterlihova) [1]

Objective integration processes are becoming more and more actual for the national economy. At present in Ukraine the mechanism of integration of economic agents is being put into practice on the basis of:

- participation in capital (holdings, financial-industrial groups, consortiums);
- concentration of control of resources and services – with the help of loans, insurance and leasing services;
- management schemes (transferring functions of executive bodies, entrusted share and stock management etc.).

Changes in the character of relations among the participants of integration are taking place as a result of evolutionary transformations and readjustment of economic processes, which results in substitution of traditional economic mechanisms by new ones which are better adapted to fluctuating economic conditions. The main theories which substantiate the reasonability of integration are [3]:

1. Synergetic theory (theory of increased added economic company value) – new structure, which evolves in the process of business integration, can use a number of advantages which were formed as a result of pooling the resources of enterprises.

2. Theory of agent relations and agent expenses – considering the possibility of creating an integrated structure, it is necessary to foresee the agent expenses which minimize negative consequences of self-interested actions of managers aimed at their own enrichment at the expense of shareholders.

3. Theory of arrogance describes integration as a result of an individual decision of enterprise management, who think it reasonable to consolidate their activity with other enterprises without taking into consideration objective factors and real value of the target enterprise [4].

4. Theory of internationalization – its basis is the idea of mutual cooperation of entrepreneurial agents through the mechanism of market operations [5].

5. Resource oriented theory – it implies three approaches to substantiation of integration and its diversification: on the basis of market structure; on the basis of inter-company market of capital; on the basis of rational use of resources.

There are kinds, directions and organizational-economic forms of integration. The kinds of integration are differentiated according to the members of the integration process or the aim of integration. The majority of Ukrainian and foreign researchers differentiate horizontal and vertical kinds of integration. Sometimes they add one more kind – mixed integration.

Horizontal integration provides the process of organizational-economic cooperation of enterprises of a particular sphere of agrarian-industrial complex, which produces homogeneous types of commodities or uses similar operations in the process of their production. It is also called intra-industry integration as it deepens specialization of certain parts of a single technological line or territorially integrated processes with the aim of improving the quality of produce, increasing the efficiency of production, etc. [6].

Vertical integration is characterized by integration of enterprises of different spheres of agro-industrial production which are interrelated within the technological process of producing certain final product. It is also called inter-industry (agro-industrial) integration. Vertical integration within administrative territorial boundaries facilitates clear differentiation of regional food industry sub-complexes – open organizational productive systems which unite farm producers, industrial enterprises, service and trade organizations.

Mixed kind of integration is an organizational economic merger of enterprises of different industries of agro-industrial complex, which technically and technologically do not depend on the production and marketing of a particular product, into one economic entity [7].

All kinds of integration have certain forms (types) of introduction [8], fig. 2. With horizontal integration of Y-type the integration of enterprises of one industry which produce similar products or fulfill similar stages of production takes place. Horizontal integration of X- or K-type unites the enterprises which make interrelated products, where X-integration is an integration of mutually supplemental in the scope of distribution and activity directions enterprises and K-integration is takeover of a company or adding new activity direction without changing the main one. The process of integration of enterprises of different industries of AIC which do not have common production is called H-type integration (conglomerate merger). Major production in such entities is vague or disappears completely.

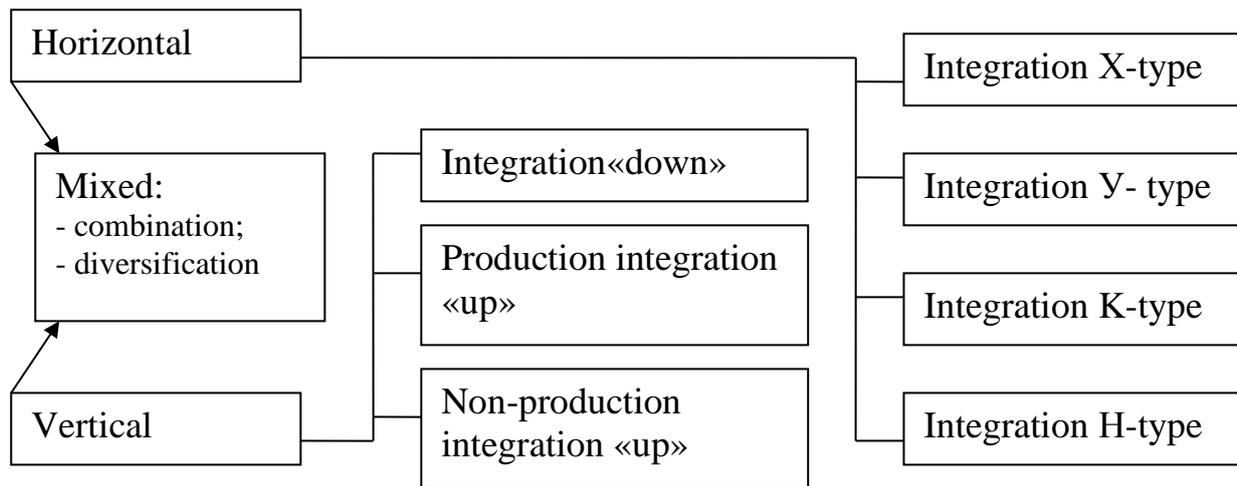


Fig. 2. Types of integration and forms of their development

The direction of integration is determined by the internal content of integration processes. According to directions vertical integration is classified as follows [9]:

- production (unites agricultural and processing enterprises which are involved in producing and supplying livestock and crop produce for further processing) ;
- marketing (implies distribution of commodities and supply of necessary means of production);
- complex (combines both mentioned above).

The main directions of horizontal integration are as follows [10]:

- production (implies cooperation of partners differentiated by intra-industry technological division of labor and so on);
- finance and credit (accumulates disposable funds of the participants of integration process and provides credit services to some of them);
- education and consulting (various associations of producers function within its frame, the aim of which is arranging the exchange of work experience, mastering new technologies, forms of organization and management of production, studying of new achievements of science and state of food markets);
- social (aimed at satisfying social needs of farm producers).

Organizational-economic forms of integration are determined by the economic-legal status of an integrated entity, in particular, they may be complete, contract, incorporated, cooperative, partner, public. The complete form is based on production means which belong to one owner. The contract one is the integration of legal entities the main tool of which is the contract. The incorporated formation, which implements integration functions, is established on the corporate basis. The cooperative form of integration is based on setting up cooperatives in accordance with their profile: processing, marketing and so on. The partner form relies on oral agreement or documentary registration. The features of informal public association prevail in the public form of integration.

Research works on economics differentiate the following classification of forms of agro-industrial integration: agro-industrial enterprises, agro-industrial entities, research-production entities, agrarian firms, agro-holdings, cooperatives, etc. The

creation of agro-industrial entities appears to be a natural and objectively necessary process which is based on the determination of material-technical, social-economic and organizational conditions of their functioning, such as the development of productive forces of the society, involvement of industrial methods of production into agriculture, achievement of appropriate level of division of labor, wider inter-industry and inter-territory relations on the basis of specialization and concentration of production etc.

To ensure the efficient functioning of integrated entities it is necessary to set distinct priorities in the principles of their formation, the main of which are:

1. Free will. The decision to join an integrated entity for entrepreneurial agents is made in accordance with the resolution of the general meeting of all its participants.

2. Integrity. In the process of formation and activity of integrated entities there must be a distinct agreement among all elements of the integration process. In the course of formation of material, technical and financial conditions there may be transition from simple to more complicated forms of integration.

3. The enterprise-integrator as a “leading element”. In the process of formation of integrated entities it is necessary to choose an integrator whose functions may be fulfilled by a financially stable enterprise with the maintained production potential.

4. Leadership of the integrator. The enterprise-integrator should not only leave behind others by the level of its development but also become a leader in organizational-technical relations among the participants of the integrated entity.

With the efficient formation of an enterprise of integrated form of economic activity a range of important problems can be solved:

- consolidation of interests of farm producers on different levels of productive-technological process
- increase of production of raw materials which makes it possible for enterprises to work at maximum capacity load;
- improvement of the commodity quality and increase of competitiveness of enterprises-participants on this basis;
- cheaper raw materials, smaller influence of “middlemen”, saturation of the market with inexpensive and high-quality produce;
- stimulation of investing capital of proceeding enterprises into the production of raw materials;
- improvement of forecasting and planning of processing enterprises activity;
- wider opportunities for introduction of innovations.

Conclusions. Integration processes in agro-industrial production in market conditions have diverse character, where the development from simple to more complicated integrated systems takes place. Functioning of integrated entities is connected with appearance, development and improvement of various kinds and forms of integration. Integrated entities are more adapted to the conditions of market economy and their successful functioning ensures the efficient development of not only structural units but the development of agro-industrial complex as a whole.

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