

Integration of enterprises into vertically - integrated holding in agri- food complex of economy

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Abstract. In agro-food complex of Kazakhstan various types of associations based on vertical integration have developed, which allow to integrate all steps of technological process, optimize taxation and reduce the risks. One of the most effective forms of cross-sector integration is the formation of agro-industrial holding companies, which link agricultural production, processing and marketing of products, enhancing the efficiency of production and processing of agricultural products, stabilize national and regional food markets in the country.

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Introduction

Agri-industrial complex has a special place in the economy of any country. This is due to the specificity of the role of its industry such as agriculture, first of all- its food production as the basis of human live activity, and production of raw materials for many types of non-production consumer goods [1]. Thus, the state of AIC largely influences on socio-economic situation in the society and the level of economic security of the country as a whole. Therefore, special attention should be paid to the study of new trends and developments occurring in the industry. Agroholdings as a form of integration has not exhausted its potential and is effective in solving many problems of agricultural sector. Further analysis of their functioning is needed, which results will stimulate positive and constrain negative sides of the development of integration processes [2] . Work in the frame of agriholdings promotes consolidation of resource and investment potential of the participants, reduction of production costs. Holdings are usually established for several purposes. They enable small and medium-sized businesses to expand their activities, to achieve tax, credit and other benefits ; strengthen the investment potential, increase profitability and technological level of production; general production and technological, investment and marketing policy create competitive advantages and contribute to the successful development of the internal and external markets [3].

Methodology

Establishing of agroholdings enhances efficiency of production and processing of agricultural products, stabilizes national and regional food markets, and is a reserve for meeting the growing needs of population in the quality of

products, strengthen competitive positions and control of market situation, thereby facilitating increase of the efficiency of agricultural holdings.

The main part

The most important task of ensuring food security of Russia and Kazakhstan is sustainable development of agrifood sector, improving the quality of consumed food, risk minimization and efficient functioning of agricultural systems and effective interregional cooperation.

Warning of the threats of world food crisis, use of benefits and minimizing the costs of accession to the World Trade Organization, in functioning of the Eurasian Economic Union assume not only the adoption of necessary legal documents, but also the modernization of agri-food and rural areas on the basis of innovations, development of effective forms of agro-industrial production, improvement of the quality competitiveness of food products.

Globalization of economy, post-industrial stage of development are accompanied with an increase of agroindustrial integration and intersectoral collaboration.

In the agri-food sector of the country different types of associations based on vertical integration are being establishing and developing. The reasons for their development from a business perspective include the ability to integrate successive stages of technological process, manifestation of scale effect and multiplicative effects, functioning of common financial structure, tax optimization and risk reduction .

One of the most effective forms of cross-sectoral integration, as world experience and existing national experience shows, is the formation of agro-holding structures, combining agricultural

production, processing and marketing of their products.

Establishing of the agroholdings enhances the effectiveness of both production and processing of agricultural products, which stabilizes national and regional food markets. Development of holding type organizations, consolidating the efforts of various entities on addressing the key goals, serves as a particular reserve to expand production and meet the growing needs of population in quality food. Vertical integration allows to improve the coordination and regulation of the activities of organizations that are part of holding companies, and provides an opportunity to strengthen competitive positions and control of market situation, thereby enhancing the improvement of the efficiency of agricultural holdings.

In this regard, special importance has the development of conceptual foundations of organization and management of activities of vertically integrated structures in agro-food sector, which involves justification of scientific and methodical tools of formation of management systems of complex corporate entities in agricultural economy.

Important objectives are to study methods and mechanisms of integration, analysis of motivation for creating vertically integrated structures of different types, identification of factors of improvement of production efficiency, consideration of external and internal conditions of functioning of the holdings, development of forms of regional support of effective integrated structures.

One of the main trends in the development of agri-food sector of Russia [4] and Kazakhstan is the formation of integrated agro-industrial entities which distinguish in various organizational and legal forms of ownership, composition of participants and types of activities.

Structures that combine economic units from agricultural production to implementation of finished products to consumers into one single complex, were the most viable and adjusted to market economy conditions. Creating a closed system of interaction and regulation of production relations in the frame of such associations opens up opportunities for providing a high level of competitiveness of agricultural and food industry sectors.

It should be noted that in agro-industrial complex of Russia and Kazakhstan processes of agroindustrial integration have been also developing in the past. Initial stage of interaction between the system of harvesting and processing of agricultural products were accompanied by organization of production directly in the areas of raw materials,

forming a closed technological chain of grain processing products.

The following scheme of interaction between enterprises has been formed: production - procurement - storage - processing. However, in terms of centralized control, state monopoly and subjectivism in solving economic problems, agro-industrial integration has been sufficiently disseminated, as Kazakhstan was assigned the role of " resource base " in the Union's economy. The main task was to supply agricultural products to other regions of the former Soviet Union for further processing [5].

Analysis of current integration processes in agro-industrial complex of Russia and Kazakhstan showed that in recent years there is a trend of increasing vertical integration. This creates various forms of integrated associations - agricultural holdings, financial agri-industrial groups, and other agricultural firms, which differ according to the forms of capital concentration, composition of participants and their organizational and legal forms, methods of creating intra- corporate relations [6]. As investors integrators of agricultural organizations act processing plants, and non-profile businesses in other sectors.

The present stage of agri-industrial integration is characterized by extensive inclusion of not agricultural capital in agriculture. In order to make the process of attracting investors to agricultural sector not accompanied by economic and social costs for rural population, but enhanced the improvement of functioning of these entities, government regulation of agri-industrial integration process is needed.

Territorial integration of technologically and economically interconnected structures allows to improve the logistics of their products , receive an additional effect due to the possibility of combination of corporate regional strategy and competitive advantages of organizations located within its boundaries . To justify the practical choice of the type of integration it is proposed to use the method of evaluation of comparable indicators of criteria and on the basis of its results, make a selection of the type and form of integration with respect to the research object.

LLP "Voronezh Bread Company " in Russian Federation currently comprises 11 modern grain processing enterprises , bakery products and animal feed , located in the territory of Voronezh and Voronezh region that operate as separate legal entities and are supervised by main joint-stock shareholders meeting [7,8].

Company in order to optimize the management structures and use maximum

opportunities of increasing economic indicators has the following aims: full use of investment potential of the created holding company; formation of the effective business management system which meets the requirements of the shareholders; optimization of general economic and production costs; optimization of logistic component ; possibility of tax and financial planning through the use of a variety of intra-corporate schemes involving subsidiaries of the basic company.

Diversification of capital and possibility of redistribution within groups of companies included in the holding company should improve their overall efficiency and reduce the overall risk, because possible losses of any of subsidiaries can be compensated due to the profitability of other branches. In addition, the goal is important- to establish progressive commercial service of the holding company.

To achieve these goals, in our opinion , it is appropriate to apply the scheme of reorganization of enterprises in the form of their merger to the basic company. Choosing of integration strategy will be determined by using a method of comparable criteria indices that will justify the typology and form of enterprises integration.

To develop a form of final evaluation of selection of the type of integration was used expert - point method, in the course of which each of the previously selected parameters is assigned a certain number of points , and then the regulatory framework (in this case the average indicator) is formed. Obtained and summarized points for each of the indicators serve as the basis for rankings. If indices taken for assessment are not equal, it will be needed to introduce weight coefficients, which allow to adjust the importance of indicator to calculate final rankings. Then will be applied the method of expert grades and development of ranking scale.

Form of building an integrated structure as vertically integrated holding represents production and organizational association of companies which are related due to common involvement in production, sale, consumption of a single end product: raw material suppliers, sales of the final product. In this case vertically integrated is a structure in which the organization structure is subject to clearly structured relations, including not only administrative regulation, but certain schemes of internal and external trade flows, interlinked production stages, logistics channels and common implementation management system.

Vertical integration in the case of recommendations for use in enterprises of grain Voronezh involves pooling within the same parent company production of the original components of

the technological cycle, processing, distribution, sale of the final product and other events.

In practice, you can classify organization of integrated corporate structures on the following features:

1. According to the type of vertical integration [9].

Direct vertical integration in terms of the direction of technological flow "forward" or "up" , in which the raw material branches are integrated into the processing branches and marketing (or - wider - integration between the lower stage technological conversion and higher one);

- Backward vertical integration in terms of the direction of technological flow "backward" or «down " in which manufacturing industries are integrated into commodity (or - wider - integration between a higher stage of technological conversion and a lower one)

2. According to the form of integration and degree of concentration:

- Full integration , characterized by fixed links between suppliers , manufacturers and sellers in the entire technological chain from beginning to end with regulation of all technological processes;

- Incomplete (partial) integration, in which part of production is produced by own efforts, and some is purchased on the open market and when there is no fixed relations on sale of products and pricing. The chosen strategy of vertical integration of the businesses of the Company aims to determine the optimal way of development, taking into account the territorial division of the company on regions of location and based on objective opportunity of optimization of processes. It is assumed that the Company will carry out direct vertical full type integration, creating new basic company in the existing units of technological links and including the businesses of the whole group of companies into integration[10].

Developed methodological approach to the justification of the type and form of integration between sector enterprises allows to select the most perspective of them and reduce the risks of entrepreneurial activity in grain processing technological chain.

Conclusions

In order to achieve the possibility of optimizing the risks arising in the implementation process of the selected type of integration, it is necessary to consider the basic possible features of scenarios of vertical integration and foresee the following corrective mechanisms:

1. Combining of production raw operations technological chain within one company of the holding, as a rule, reduces the incentives for independent commercial activities of particular

structures, reduces the effectiveness of technological cycle that ultimately leads to the increase of production unit costs. It may therefore happen so, that for the holding, own production costs will be higher than cost of raw materials produced in other markets. To neutralize the negative impact we have defined the strategy of limited competition, in which the company, which is a provider of raw material of technological cycle, needs to compete with prices on market of similar raw materials. The results of internal flows are not accepted for calculation of motivational component.

2. Vertical integration inevitably increases capital investments in branch structure, eliminating directions of financial resources to other, possibly more profitable areas. To ensure the competitive positions, the company is forced to direct significant share of investment resources to the maintenance of its integrated productions.

To neutralize this negative moment we have determined the strategy of "3 circles" which was applied by D.Uelch in enterprise integration of American corporation «General Elektrik».

During implementation of this strategy it is recommended to hedge possible risks by creating special investment hedge fund to the stage of realizing the potential of integrable enterprise. The fund means are allocated on other company of the holding which already are revenue-generating, which will allow to compensate for the risks of unsuccessful investing within the period of one to three years, after which the company is either sold or reorganized to another business unit

Net Present Value (NPV) is calculated using the projected cash flows associated with the planned investments, according to the following formula:

$$NPV = \sum_{t=1}^N \frac{NCF_t}{(1+r)^t} - Inv$$

where NCF_i - net cash flow for the i- period
Inv- initial investments, r - discount rate (cost of capital attracted for investment project).

With a positive NPV it is considered that this capital investment is effective.

3. Vertical integration leads to problems associated with the necessity of balancing production capacities at each stage of technological chain, which reduces the loading of capacities. To achieve simultaneous growth simultaneously at several stages of production cycle, we propose to use planning process of technological values at output. If capacity increases on one of the stages, then to ensure a

balanced work a certain time interval is planned in general. The same technique is supposed to be also applied in transition to production of new types of the product.

4. Vertically integrated holding company is subject to the risk of being influenced by large marketing monopolies that often create barriers to functioning of all enterprises of the structure on market, in case of failure to agree on commercial terms. In this case it is proposed to apply measures rigid economic and legal regulations of conditions for cooperation with network partners. It is also recommended not to profile production on production of mono product and products with low profit, which do not allow to shift the price limits and reach agreements on the sale of low profitable products in proportion with highly profitable.

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