

**INTERNATIONAL CONGLOMERATE AS A FORM OF BUSINESS INTEGRATION
IN WORLD ECONOMY**

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Business integration in world economy generally includes horizontal, vertical, and conglomerate forms.

In contrast to horizontal integration involving business integration of the companies with providing full production cycle within the industry and to vertical integration involving business integration of the companies performing different steps of production chain, conglomerate business integrations include the companies from different industries.

Thus, *international conglomerate* is an organizational form uniting under a common financial control a chain of diversified companies derived from mergers of isolated companies irrespective of their horizontal or vertical integration without any industrial unity [1].

The main incentives for conglomerate integration are:

- risk diversification;
- synergy effect;

- provision of broader economic basis;
- improvement of market and industry predictions ;
- desire to enhance company's management image;
- focus on access to new markets and technologies.

Conglomerates traditionally emerge as a result of mergers and acquisitions of the companies with different industrial and commercial focus. Despite the fact that a great number of mergers and acquisitions resulted in failure, such transactions remain the most used strategy for business development [2].

Analysis of international practice shows that conglomerates as an organizational form have the following specific features:

- business integration of the companies from different sectors without any industrial unity;
- absence of specialization;
- legal and industrial independence combined with financial control of parent company;
- significant decentralization of management;
- major role financial and economic methods of regulation.

The main problems emerging from activity of conglomerates are:

1. negative influence on goods and services competitiveness as a result of diversification;
2. insufficient policy of transfer pricing based on desire of the companies to establish the most favorable price in terms of weak technological unity of companies;
3. decrease in motivation of company's key management included in conglomerate by acquisition: efficiency of work done influenced by changes of shareholder status to employee;
4. high transaction costs of mergers and acquisitions.

Currently there are fewer companies striving to create conglomerates. It is explained by the fact the industry-focused companies show better results from efficiency and performance point of view. This fact is confirmed by recently announced by General Electric, United Technologies Corp, DowDuPon, Honeywell, ThyssenKrupp, Siemens, restructurings, break-ups, and industry focus [3].

Despite the observed tendency to de-conglomeration, it is considered that this integration form won't cease to exist but will undergo changes in line with current tendencies of economic development. These changes, above all, will be connected with the fact that conglomerates will be based on technology companies instead of industrial, as it was previously [4].

Alibaba has been moving from internet infrastructure and e-commerce into content, buying up movie studios, sports venues and music distributors. That could be seen as simple vertical integration, but Alibaba is simultaneously buying up pharmaceutical and medical device companies. Tencent is following the same playbook, and has moved into real estate, banking, agriculture and renewable energy [5].

To draw the conclusion, international conglomerate is a form of business integration enabling not only diversify the activity but as well gain benefits and additional effect in form of scale economy, market power, transfer pricing and elimination of duplicate functions. At the same time, industrial conglomerates yield the position to technological companies.

References

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