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INNOVATION DEVELOPMENT MANAGEMENT IN VERTICALLY INTEGRATED HOLDING COMPANY

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Abstract

The trend towards production consolidation and integration processes taking place both in the Russian and global economies leads to development of business associations, with a holding company being the most common form in Russia and around the globe.

The evidence in favor of the formation of holding companies is that they can benefit from the scale (bulk purchasing, centralized stuff training); in the global capital and exports markets they can be more effective than smaller businesses and, if non-profitable, a loss-making structure is easier to liquidate than the entire company; holding companies and associations can be an effective defender from political interference.

As the importance of the well-functioning and harmonized procedure for the companies' integration will increase (especially in the context of Russian business, where specific features of many areas of the production system imply the use of holding oligopolies as the most effective form of market structures), there is a need in their more profound study and, in particular, in the analysis of the most important technologies of the general integration procedure.

The article outlines the relevance of innovative development management of vertically integrated holding systems, lists principles of innovative activity management and considers the features of innovation management of a vertically integrated holding company.

The objective of the research *is to study theoretical and practical aspects of innovative development management in vertically integrated holding systems.* **The object of research** *is management structures in innovative holding companies.*

While working on the article, the following methods of economic research were used: abstract and logical method, empirical method, method of expert evaluations, as well as methods of structural and functional and statistical analysis.

Keywords: *Innovation development, innovation company management, innovation holding, vertically-integrated systems.*

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Introduction

Any Russian company faces the necessity to introduce innovations as a basic condition for maintaining and developing its activities. The classics of innovation management, Gary Hamel, wisely wrote addressing enterprise heads: "Out there in some garage is an entrepreneur who's forging a bullet with your company's name on it. You've got one option: you have to shoot first. You have to out-innovate the innovators." Possibilities to develop innovations within companies, contacts with outside companies, joint development and cooperation in the field of innovation and the availability of state support ensure their access to innovations. The main obstacle to the effective company's innovation management was the lack of strategies, standards and tools for innovation implementation.

At present, the largest number of innovations is implemented mainly in the highly profitable fuel, energy and other key industries. According to the international practice, these are the industries where vertically integrated companies dominated [5].

Research results and discussion

Innovation development management of vertically integrated holding companies is a relevant and important issue due to the necessity to employ the entire scope of innovative capabilities in a vertically integrated company. Thus the effect from increased production scale is common for such companies. For example, A.Yu. Knobel states that "vertically integrated companies are better in simulating technologies, and disintegrated companies implement innovations better; vertical integration has a positive effect on growth in the early stages of development, and a negative impact at a later stage."

Firstly, a core possibility of innovative development of vertically integrated companies operating in processing

industries is connected with manufacturing of innovative products. At the same time, developing a highly efficient radical product innovation requires a long time at a relatively low probability of a positive outcome.

Secondly, intensification of industrial innovative development of vertically integrated industrial companies is influenced by the use of new types of raw materials; application of the new higher quality or cheaper raw materials for highly sophisticated industrial products has, as a rule, a local effect.

Thirdly, the use of new production technologies in multistage production chains often has a local effect, too.

Fourthly, increased competition between vertically integrated companies in the single market causes limitation of possibilities for implementing innovative changes.

Fifthly, there is the necessity to search for new possibilities for innovative changes in organizational structure of vertically integrated companies.

Though innovative organizational changes are evident, the potential of their internal nature in relation to the company that provides full manageability and unified character of the use has not been exhausted completely. This also refers to the innovative development management in vertically integrated companies.

In their work, Acemoglu, Aghionand Zilibotti (2002) developed a model in which the equilibrium organizational structure of the company changes as the economy approaches the world's technological frontier. Owners (managers) in vertically integrated companies have to spend time (effort) on production and innovation; this causes management overload and obstacles to innovations. Outsourcing of certain parts of the production process reduces management overload, but creates an opportunity for opportunistic behavior, resulting in some of the profit of owners being shared with suppliers.

The farther away from the technological frontier, the more acceptable imitation is, while when closer to the border, the more the innovation cost increases causing outsourcing.

In a similar research, Grossman and Hart (1986) formulated a theory according to which vertical integration reduces the potential for opportunistic behavior between companies and suppliers. Changing the ownership structure, and as a result, outside options of the participants involved, vertical integration changes the profit distribution among the participants and thus stimulates investments. In such models, the benefits from vertical integration are due to the fact that the parent company does not have to share profits with its suppliers, and the costs of vertical integration are due to management overload, and this prevents managers from being involved in certain activities, especially innovative ones. These two differently directed effects make vertical integration more attractive when far away from the technological frontier, but when approaching it, costs of the limited innovation activities of managers begin to overlap the costs caused by profit sharing and it is profitable to exercise outsourcing in some production activity.

Acemoglu, Aghion and Zilibotti (2002) summarize the earlier studies and reveal the relationship between the distance from the economy to the world's technological frontier and the organizational structure of the company. The authors show that companies enjoy substantial incentives to have a vertically integrated structure, if the economy is far from that frontier. Moreover, they studied how the removal of the country from the technological frontier influences the types of contracts companies sign with their managers, external funding sources, suppliers and vice versa, how these contracts can influence the economic growth [6]. When the economy approaches the technological frontier, innovation value increases and companies find it more profitable to implement outsourcing. However, they run the risk to be trapped by backwardness, when the economy does not achieve the technological frontier and remains within the vertical integration. The lower development of competition in the economy, the higher options for getting into this trap [6].

It is impossible to implement the strategy of innovative development without improving the processes of interaction between companies. The task to improve information exchanges is solved by implementation of e-commerce systems. Such systems are outside the business boundaries and change the nature of the world economy, providing competitive opportunities for companies of all sizes trying to expand the sphere of their influence. The development of Russian vertically integrated companies is determined by the necessity to improve the competitiveness, provide conditions for permanent updating and introduce new methods of management, innovations and information technologies.

Expansion of vertical integration should be seen as a strategic breakthrough. The main condition of success is the ability to integrate experience, to enter into new partnerships, to arrange joint ventures and establish relationships in order to improve the possibilities of different companies. Like integration of companies, integration of experience should not be held on the terms of establishing ownership and control; more importance should be given to common interests and mutual benefit [1].

Let's consider the peculiarities of management of innovation activities in a vertically integrated holding. The main elements of a vertically integrated holding company include production, transportation, storage, processing, sale, financial activities, R&D and the capital output to other sectors of the economy.

The common feature is the activity along the entire production process chain, enabling to maximize shareholder value of the vertically integrated company when implementing investment and innovation projects. Solving this problem requires the use of an integrated model of innovation management in all key chains of the holding taking into account changes in external factors. These factors include competition, supply and demand, exchange rates, the volume of exports, etc.:

- production management model implementing a differentiated principle for the project portfolio development;
- transportation management model which provides the possibility to improve the distribution of raw materials throughout delivery destinations under dynamically changing volumes at the initial stage (in dispatching points) and at the final stage (in destination points) of internal and external routes;
- innovation management model which implies the possibility to change the scheme of the holding's development depending on investments and get integrated with the production and transport models. One should take into account the current restrictions that have a significant impact on the final transportation costs (e.g., restricted traffic capacity, cost of transportation through the route sectors, end-user demand dynamics, seasonal variations, etc.);
- product sales model which considers the demand and supply dynamics in the domestic and foreign markets, short- and long-term forecasts for the capacity of internal and external markets, taking into account shares of competing holdings. It can be integrated with the production model.

If there is an innovation management system, the leading role belongs rather to the company's ownership, than to its activity or industry.

Holding companies have the following peculiarities of the innovation potential:

- integrated financial resources and the possibility to use them for development and implementation of technological innovations;
- a flexible multi-level organizational and management structure, prescriptive management style and the possibility to use them for development and implementation of non-technological innovations [3].

Conclusions

Thus, the innovation policy in a vertically integrated company is considered in the light of the complex interaction among all units under corporate limitations and preferences and the necessity for simultaneous consideration of innovative projects in all key chains of the holding taking into account the infrastructure (transport and distribution systems), and other features at all stages of the life cycle of long-term projects. It is necessary to take into account the complex mechanism of mutual influence of key performance indicators of the holding company.

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УПРАВЛЕНИЕ ИННОВАЦИОННЫМ РАЗВИТИЕМ ВЕРТИКАЛЬНО-ИНТЕГРИРОВАННОЙ ХОЛДИНГОВОЙ КОМПАНИЕЙ

Наталья Тагировна Успенская

Аннотация

Тенденция к укрупнению производств, а также интеграционные процессы, происходящие не только в отечественной, но и в глобальной экономике, приводят к образованию предпринимательских объединений, самой распространенной формой которых в России и в мире являются холдинги.

В пользу образования холдинговых компаний говорит то, что они могут сыграть на эффекте от масштаба (массовые закупки, централизованное обучение персонала), на мировых рынках капитала и экспорта могут действовать эффективнее меньших фирм, в случае нерентабельности легче ликвидировать убыточную структуру, чем все предприятие; холдинговые компании и объединения могут играть роль эффективного защитника от политического вмешательства.

В связи с тем, что важность проведения отлаженной, согласованной процедуры интеграции компаний будет возрастать (особенно в условиях российского бизнеса, поскольку специфика многих сфер производственного комплекса предполагает использование холдинговых олигополий в качестве наиболее эффективной формы рыночных структур), возникает необходимость в их более глубоком изучении и, в частности, в анализе наиболее значимых технологий общей процедуры интеграции.

В статье определена актуальность управления инновационным развитием холдинговых вертикально интегрированных структур, представлен перечень принципов управления инновационной деятельностью, рассмотрены особенности управления инновационной деятельности вертикально-интегрированного холдинга

Цель данного исследования состоит в исследовании теоретических и практических аспектов управления инновационным развитием холдинговых вертикально-интегрированных структур.

Объектом исследования являются структуры управления инновационных холдинговых компаний.

В процессе работы над статьей применялись следующие методы экономических исследований: абстрактно-логический, эмпирический, метод экспертных оценок, использовались приемы структурно-функционального и статистического анализа.

Ключевые слова: *инновационное развитие, управление инновационной компанией, инновационный холдинг, вертикально-интегрированные структуры.*

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