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THE COMPETITIVE ADVANTAGE OF INTERCONNECTED FIRMS

Abstract:

Economic instability and increasing competition are forcing firms to consider integrated structures as a way to form a competitive advantage. This article examines mergers and acquisitions, alliances, and subsidiaries in order to identify common characteristics specific to particular industries.

Keywords:

Interconnected economic structure, advantage, strategic alliance, mergers and acquisitions, subsidiaries.

Just 10-15 years ago, it was thought that the competitive advantage of companies was only in resources, but as competition develops, companies get the opportunity to increase their audience, profits or improve operational processes through new intangible assets.

Simple production is associated with a simple form of labor organization. But the more complex the production process, the more complex its form of organization becomes. The primitive system was characterized by individual production. Growing human needs demanded more complex and qualitative products, which led to the division of labor with the simultaneous emergence of cooperation. With the formation of society developed and forms of organization of labor: individual production, manufactory, factory. In the 19th and 20th centuries, with the development of transport and the emergence of new systems, the first international and transcontinental corporations began to emerge.

Nowadays it is the cooperation of economic entities that is one of the most important factors for winning in competition.

There are many definitions of "group of interconnected organizations," which are presented in Table 1.

Table 1 – Definitions of "group of interconnected organizations"

Source	Definition
The Big Dictionary of Economics	Group of interconnected organizations - an association of subsidiaries and affiliated companies.
Financial and Credit Encyclopedic Dictionary	Consolidated group of taxpayers - a temporary association for tax purposes of several organizations to pay one or more taxes. The purpose of such associations is to minimize tax liabilities.
Oxford Dictionary of Finance	Group of companies - a holding company and its subsidiaries.
Tax Code of the Russian Federation	Interdependent persons for taxation purposes are natural persons and (or) organizations, the relations between which may influence conditions or economic results of their activity or activity of persons represented by them.
D.N. Borisov	Integrated economic systems - complex associations that include manufacturing enterprises, financial institutions and trade and commercial structures, the process of merging of capitals, which under effective management, with optimally built vertical and horizontal, forms a qualitatively new type of alliance.

I decided to adhere to the opinion that an integrated economic system is a self-sufficient system of free enterprise, entering it on a contractual basis economic entities entering into coordinated organizational, economic and managerial relations for the purpose of industrial rationalization, improving competitiveness and achieving synergies.

Therefore, for further research and comparison of companies that are part of integrated economic systems, I have identified the following characteristics to determine the identification of the comparative advantage of such companies:

1. Quantitative advantage;
2. The valuation of the business, capitalization;
3. Increase of the market niche;
4. The effect of combining complementary resources;
5. The possibility of reducing operating costs;
6. Distribution around the world.

Based on the above theoretical aspects and the analysis of scientific articles written on similar topics, I put forward a hypothesis: the comparative advantage a company receives depends on the type of integrated structure, but not on the industry in which the integrated structure is present.

For clarity, as a practical part of the paper, I decided to analyze 6 industries: the aviation industry, auditing, automotive industry, oil and gas industry, cellular operators, and banking sector. The reason for choosing these industries is that they are the ones most affected by the economic sanctions imposed in 2022. Thus, the case study will help to identify the competitive advantages of each of the selected integrated structures, as well as allow us to draw conclusions about the necessary management decisions in the current situation based on the results. I will look at the integrated structures operating in these industries at different points in time to determine the long-term or short-term economic outcome of the merger.

In all industries except banking, the companies chosen are some of the largest and most widespread around the world. The banking industry, as it will turn out later, has its own peculiarities of functioning that differ from the rest of the industries, so large mergers and alliances

at the country level are taken in this industry, and an interesting case is chosen as a subsidiary, making it stand out from the variety of banks.

In Table 3, the possible competitive advantages under consideration are presented under numbers 1-6. Thus, 1 – quantitative advantage, 2 – the valuation of the business, capitalization, 3 – increase of the market niche, 4 – the effect of combining complementary resources, 5 – reducing operating costs and 6 – distribution around the world.

Table 2 – Comparative table of benefits caused by the creation of integrated economic structures

	1	2	3	4	5	6
M&A						
Airlines (<i>Air France-KLM</i>)	+	+	+		+	
Audit (<i>Crow Horvath Russia</i>)	+		+			
Automobile manufacturing (<i>Stellantis</i>)				+	+	
Oil and gas industry (<i>ExxonMobil</i>)		+	+			
Telecom cellular operators (<i>Telefonica + E-Plus</i>)	+		+	+		
Banking (<i>Truist Financial</i>)	+	+				
Alliances						
Airlines (<i>SkyTeam</i>)	+		+	+	+	+
Audit (<i>Microsoft and KPMG</i>)				+		+
Automobile manufacturing (<i>Renault-Nissan-Mitsubishi</i>)	+		+			
Oil and gas industry (<i>Gazprom and Shell in the context of the Sakhalin-2 project</i>)		+		+		
Telecom cellular operators (<i>International Alliance of Telecom Operators</i>)			+	+		
Banking (<i>Sber</i>)			+	+		+
Subsidiaries						
Airlines (<i>British Airways created British Asia Airways</i>)			+			+
Audit	+		+			
Automobile manufacturing (<i>Toyota Motor LLC</i>)			+			
Telecom cellular operators (<i>"Vimpel-Communications", part of the international group "Veon Ltd."</i>)			+			
Banking (<i>"Tochka" Bank is a subsidiary of "Otkritie Bank"</i>)						

According to the data obtained, in absolute terms we can say that quantitative advantage and market niche increase are dominant in mergers and acquisitions.

With regard to alliances and the opening of subsidiaries, the desire to increase the market niche is dominant in these types of integrated economic structures. Also, in alliances important competitive advantage is the possibility to combine complementary resources.

It is worth paying attention to the peculiarities of the banking sector, which operates with competitive advantages that are characteristic only for this industry. We are talking about

innovative offerings in the market of services, also about an alliance that provides the scale that is needed in the current competition.

Summing up and going back to the set hypothesis about the lack of connection between the competitive advantage of a certain integrated economic structure and the industry of the alliance presence, we can conclude that the hypothesis is confirmed, but with the caveat that there are still secondary advantages, which can be characteristic only of a certain industry. For example, manufacturing industries are characterized by a desire to reduce production costs. Also, the banking sector as a service sector has its own characteristics, of course, they are not as clearly highlighted as the desire to win a large market share, but they are also strategically important when discussing the possibility or need to implement an integrated economic structure in the activities of the company.

As for the integrated structures themselves, the greatest number of competitive advantages for the company bring mergers and acquisitions and alliances. In the current situation, in conditions of economic instability, alliances will be the best way to increase business efficiency. Because mergers and acquisitions are a complex process, the result of which is difficult to calculate. It is also important that this is a very costly event, which will hit the budget of the company hard, and, possibly, the result will bring quite a long time. Also, if there has been a failed merger or takeover and companies are already seeing deterioration, it is almost impossible to return to the previous state.

As for alliances, the result of the merger can be seen in the first months, and a competent strategy for its development will allow companies to cope with the increasingly difficult economic conditions.

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