VERTICAL INTEGRATION: STRATEGIC BENEFITS AND ADVERSE EFFECTS

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Abstract

The paper contains highlighting and theoretical level analysis of the factors positively and negatively influencing profitability of vertically integrated and non-integrated companies. Advantages and disadvantages of choosing the strategy of vertical integration are proved along with systematization of main approaches to these item researching. The difference of the efficiency between the integrated and non-integrated companies' performance is considered, which is the key issue of the best way of large companies development. The central issue of the research, that is based on the theory highlighted in this paper, is the utility of existence of large vertically integrated companies in emerging capital markets. Are such companies improving the whole economy of an emerging country or are they slowdown transition to market relations in all industries? This article was motivated by the trend in developed capital markets towards dividing big holding companies to small segmental units.

The efficiency of vertically integrated companies' performance should be studied through comparison the whole corporation and a set of detached businesses, that could be parts of integrated company. The simplest way of such analysis, which was used by the first researchers in this field, is to compare total costs and to depict different types of economies. On the more sophisticated level of analysis must be taken into account such issues as principal-agent problem, technological economies and risk level minimization under the conditions of legal restrictions, which limits costs saving between two branches of one company. The third approach to consider all influencing companies' performance factors is the analysis of financial figures, especially the analysis of different ratios, that can show relative efficiency of companies. By doing such analysis not only traditional components of synergetic effect are taken into consideration, but also financial features of M&A deals that can lead to a bankruptcy are covered.

Keywords: disintegration, company's strategy, transaction costs, opportunistic behavior, efficiency of company's performance

JEL: G34

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