

RELATIONSHIP PROCESSES INTERCOMPANY INTEGRATION AND ECONOMIC MODERNIZATION

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ABSTRACT

Today, a sustainable development of the national economy depends on the ability to continually generate innovations which are cardinally different from previous products and services. The result is a system of cooperation between industry, science, and society where innovations become the basis for the development of industry and society.

Purpose of the paper is to estimate the relationship between the integration processes with the process of economic modernization. Methods for comprehensive study of the processes of integration relations between small and big businesses in terms of economic modernization were used as a tool. We used an evolutionary approach to the study of phenomena and dialectical systemic approaches, methods of setting and test hypotheses.

As a result of the study we have identified that economic modernization creates prerequisites for integration of small and big businesses. In conditions of innovative development of economy big and small businesses utilize those areas in which they have competitive advantages developing an integration and cooperation relations between them. In turn, the integration of small and big businesses has an impact on formation of internal and external economic factors for enterprises activity on which their innovative efforts depends.

Individual conclusions formulated can be used by public authorities to develop measures directed to promote the innovative relations.

Keywords: *intercompany integration; big and small businesses; innovations; information technologies; economic modernization.*

INTRODUCTION

In modern conditions, economic modernization based on the development and production assimilation of new products and technologies is the main source of sustainable economic growth. It causes the growth of output and value added, employment, investments volume, foreign trade turnover, saving production costs, and improvement of production efficiency (Sofya Avdonina, S.I. Grudina, Alla Igorevna Podgornaya, 2015).

In modern conditions, impact of modernization of economic activity on efficiency of economic actors has fundamental economic and sociological prerequisites among which are the following: globalization, growing influence of technological progress, improving living standards what in turn leads to a constant increase in demand for new products and services.

Currently, an important factor in stimulation of spreading innovation and information technologies and products is the network effect. In the economic literature, the term "network

effect" is used to describe a trend upon which some value (price) of a product or service being a part of a network increases markedly as more and more members are added to the network.

Under the influence of the above conditions, the growth of domestic expenditures for research and development works is observed in industrialized countries that ultimately leads to a significant increase in innovative activity of economic subjects (Table 1).

Table 1
GROSS DOMESTIC EXPENDITURES ON RESEARCH AND DEVELOPMENT (MILLIONS OF US DOLLARS)

Country	2005	2007	2008	2009	2010	2011	2012
Russia	18115.0	26543.7	30060.9	34628.2	33062.4	35183.1	37851.3
Germany	64299	72242	76797	83133.7	87831.8	96971.5	102,238.4
Finland	5601	6496	7098	7543.0	7653.9	7897.7	7530.2
Netherlands	10236	11794	11828	12416.7	12823.6	14597.9	15661.2
Japan	128695	147939	149213	137,016.8	140,656.9	148389.2	151,727.9
USA	323047	373185	398194	406000.0	409599.0	429143.0	453544.0

Source: Russia and countries of the world, 2014 Gross domestic expenditures on research and development (www.gks.ru, 2014).

To date, the only way of ensuring economic growth is providing the ability to create a radically new products and services on your own.

Such Russian scientists as Bagautdinova N.G., Galiev G.T., Safiullin A.M., Odintsov Y.L., Ulesov D.V., et al. were engaged in the study of the factors of Russian enterprises innovative development (Bagautdinova N.G., Galieva G.T., Pakhmutov Ya.O., Pratchenko O.V., 2014; Safiullina, A.M., Odintsova, J.L., Zhilina, N.N., Shamsutdinova, M.R., 2014; Ulesov D.V., Murtazina G., Safiullin L.N. and Saipullaev U.A., 2013). Compilation and analysis of the results of these studies helped to create the basis for further study of methods for increasing innovation activity of Russian enterprises. Recognition of the importance of the problem of intercompany integration in the development and commercialization of innovations for the sustainable development of the national economy dictates the need for an in-depth analysis of the factors for intensification of this process. The purpose of this paper is to study the interaction between the processes on integration of small and big businesses with the process of economic modernization, as well as identifying factors of innovation activity of enterprises as a result of establishment of the integrated structures.

METHODS

We have used as a tool the methods for comprehensive study of processes of integration relations between small and big businesses in conditions of economic modernization. Upon that, we have used an evolutionary approach to the study of phenomena, and dialectical systemic approaches, methods of setting and testing hypotheses.

RESULTS

Integration relations between small and big businesses and modernization of the economy are in a dialectical relationship which is manifested in the fact that, on the one hand, their integration has a positive effect on the development of the economy modernization, and on

the other hand, the processes of economic modernization create preconditions for development of intercompany integration.

On the one hand, the processes of integration of small and big businesses contribute to the emergence of economic modernization factors: demand for innovative products; offer of innovative resources; restriction of excessive competition; availability of state support of innovation activity; formation of internal resources for innovation activity; increased flexibility and mobility of intercompany interactions. On the other hand, the processes of economic modernization create preconditions for development of integration relations between small and big businesses: an increase of R & D expenditures; reduction of product life cycle; differentiation of demand; complication of the enterprise management process. The revealed relationship takes into account the impact of integration relations to the innovation process in contrast to existing approaches to the study of integration processes in the present conditions identifying prerequisites for development of this process (Barinov V.A., Zhmurov D.A., 2007; Zhigunov A.P., 2007).

Integration of big, small and medium enterprises contribute to lowering weaknesses and strengthening advantages in the conditions of innovative type of economic growth (Verbano, Chiara; Crema, Maria, 2016). Upon that, a big business has several advantages:

First, profits accumulated by big companies due to the monopoly position in the market and economy of production scale allow for creation of big-scale high-risk investments in innovative projects (Schumpeter, J., 2007).

Second, a big company can carry out multi-purpose research and choose from a number of complete innovations the most successful and well-timed to entry into market.

Third, it is such a corporation that receives the benefits in the decisive and the most capital-intensive stage: in mastering innovations and preparation of mass production.

At the same time, in conditions of an economy based on innovations, expansion of big business experiences a restrictive influence of factors such as reduction of a product life cycle; individualization of demand; complication of big enterprise management process due to increased uncertainty in modern markets (Zhigunov A.P., 2007).

In modern conditions a small business has the following advantages: ability to master the production of small-scale, unique products corresponding to fragmented demand; ability to quickly set up production of new products; a big degree of freedom in decision making.

However, activities of small and medium-sized enterprises is limited to small financial savings, focused specialization of workers, low level of diversification, small market share. I.e., small and medium enterprises are in an objectively worse economic conditions than big firms. Small and medium-sized enterprises find it considerably difficult to attract skilled workforce as usually do not offer remuneration at the level of big companies; and also experience lack of investments. It is possible to identify also such difficulties for small and medium enterprises as the incomplete use of production capacities, difficulties with timely receipt of quality raw materials due to low capacities of firms; lack of financial resources for implementation of effective marketing policy. As a result of these reasons, the relative costs of small and medium-sized businesses often exceed the relative costs of a big company. Besides, small businesses are very unstable against fluctuations in economic conditions.

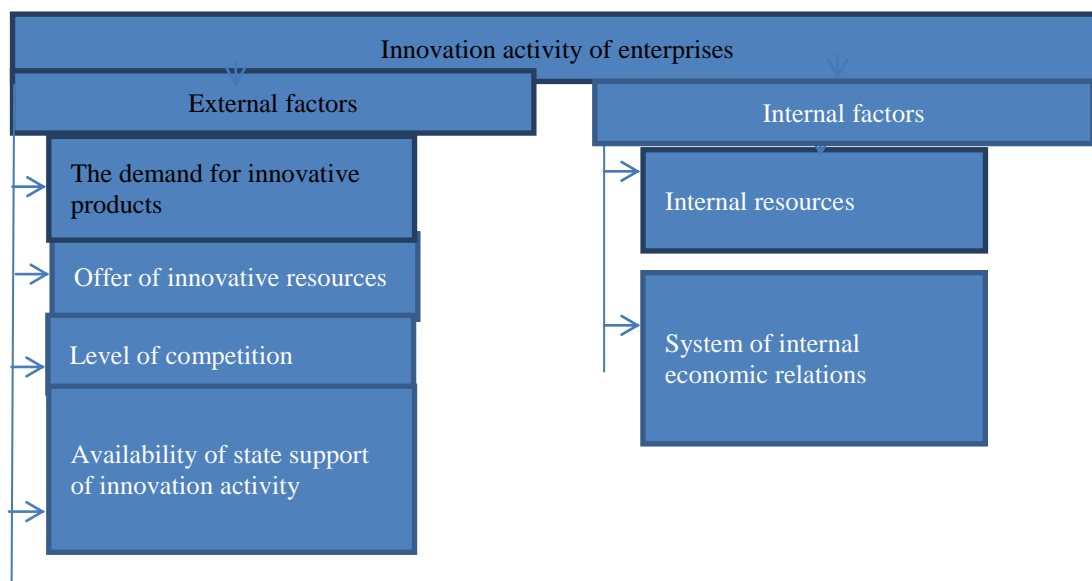
In order for small and medium enterprises could perform their social and economic tasks, it is necessary to improve their viability and sustainability. This in turn could be possible only as a result of the complex targeted measures to support small businesses, among which cooperation programs with major companies are particularly important.

Thus, at the moment, when the economy growth at a micro and macro level is largely determined by development and introduction of innovations, big and small businesses master those areas in which they have competitive advantages, and also develop integration and cooperation relations.

Big companies are impossible to replace at the realization of big-scale and capital-intensive innovation projects during mastering new products in mass production. Small and medium-sized companies have a major advantage over the big ones at organization of pilot production of new products, in developing small-scale production. Integration of big, small and medium enterprises allows for neutralization of their weaknesses and increase their benefits. (Alexey Lamanov, 2004)

In turn, integration of small and big businesses has an impact on formation of internal and external economic factors of enterprises activity on which their innovative efforts depend. Enterprises have a limited impact on external factors of innovation activity. Internal factors of a company are under the full control of its owners and management. Internal and external factors of innovation activity are shown in Fig. 1.

Figure 1
EXTERNAL AND INTERNAL FACTORS OF INNOVATION ACTIVITY OF ENTERPRISES



The external factors of innovation activity emerging within the framework of intercompany integration relations may include: the demand for innovative products; offer of innovative resources; a certain level of competition; availability of state support of innovation activity.

Intercompany integration contributes to the demand for innovative products for two reasons. Firstly, interaction of enterprises within an integrated structure permanently leads to that innovative projects better suit their needs.

Secondly, integration of small and big businesses enables using the potential of big enterprises for organization of big-scale marketing campaigns to generate consumer demand for innovative products what increases innovation activity of the enterprises included in the integrated entity.

Offer of industrial resources required for innovation also has an impact on the processes of economic modernization of enterprises. Intercompany integration significantly expands the possibilities to attract a financial capital, as a result of its implementation financial flows have become more stable and predictable, and risks of innovative projects are reduced. In addition, integration of small and big businesses in the sphere of innovation can create better working conditions and helps to attract highly qualified specialists in small innovative businesses.

Intercompany integration leads to restricting competition thereby maintaining the potential for innovation activity. Development of flexible association relationships where cooperation is combined with competition within the integrated group, allows for avoidance of reducing incentives of innovative activity and a slowdown in the of innovations mastering rates.

As a result of the fact that intercompany integration helps to reduce risks and payback periods of innovative projects, opportunities for participation in various government programs on their funding extend.

Intercompany integration has also a positive effect on internal factors of innovative activity, its internal resources and the system of internal economic relations. By combining the financial, intellectual and industrial resources the necessary capacity for innovation is developed, and investment risks are shared. In addition, by building flexible industrial processes configurable in accordance with the environment requirements, it is possible to provide internal mobility of the economic system allowing for quick identification of changing in needs and organization of accelerated supply of new products on markets.

CONCLUSIONS

It was revealed that the integration relations between small and big businesses and modernization of the economy are in a dialectical interrelationship manifested in the fact that, on the one hand, their integration has a positive effect on progress in modernization of the economy, and on the other hand, the processes of economic modernization create prerequisites for development of intercompany integration.

CONCLUSION

Thus, the economy of industrialized countries is increasingly focused on innovations and creates a system of relations between science, industry and society where innovations are the basis for development of industry and society. One of the main tasks of economic actors is a constant creation of new products essentially different from previous products and services.

Under these circumstances, big and small businesses master those areas where they has competitive advantages developing an integration and cooperation relations between themselves. In turn, integration of small and big businesses has an impact on formation of internal and external economic factors for activity of enterprises on which their innovative efforts depends.

Separate conclusions formulated may be used by public authorities to develop measures to enhance the innovative relations.

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