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## **DIVERSIFICATION AS A DIRECTION OF ENTERPRISE'S STABILIZATION**

**Abstract.** *The basic directions of industrial enterprises activity diversification on the basis of diagnosis of their productive capacity with the basic activity and innovation implementation preservation are revealed.*

*The preconditions of diversification are determined, namely, the loss of position on the market of primary products, consumer dissatisfaction with certain types of products like consumer goods and allied enterprises dissatisfaction with the products of the examined enterprises.*

*The methods of diversification measures calculation on the basis of estimated efficiency coefficient and synergetic effect are suggested. On the basis of the test the importance of diversification as a measure of enterprise's stabilization in conditions of unstable economy is brought to light.*

**Keywords:** *diversification; diagnostics; efficiency coefficient; synergetic effect.*

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## **ДИВЕРСИФІКАЦІЯ ЯК НАПРЯМОК СТАБІЛІЗАЦІЇ ДІЯЛЬНОСТІ ПІДПРИЄМСТВА**

**Анотація.** *Розкрито основні напрямки диверсифікаційної діяльності промислових підприємств на основі діагностики їх виробничого потенціалу, із збереженням базової діяльності та впровадженням інновацій.*

*Визначено передумови диверсифікації, які полягають у втраті позицій підприємства на ринку основної продукції, незадоволенні споживачів окремими видами продукції, як товарами народного споживання, так і підприємств-суміжників продукцією розглядуваного підприємства.*

*Запропоновано методи розрахунку диверсифікаційних заходів, на основі оціночного коефіцієнту ефективності, та синергетичного ефекту. За результатами оцінювання*

з'ясовується необхідність диверсифікації як стабілізації діяльності підприємства в умовах нестабільної економіки.

**Ключові слова:** диверсифікація, діагностика, коефіцієнт ефективності, синергетичний ефект.

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## **ДИВЕРСИФИКАЦИЯ КАК НАПРАВЛЕНИЕ СТАБИЛИЗАЦИИ ДЕЯТЕЛЬНОСТИ ПРЕДПРИЯТИЯ**

**Аннотация.** Раскрыто основные направления диверсификационной деятельности промышленных предприятий на основании диагностики их производственного потенциала из сохранением базовой деятельности та внедрением инноваций.

Определено предусловия диверсификации, суть которых в потере позиций предприятия на рынке основной продукции, неудовлетворении потребителей отдельными видами продукции, как товарами народного потребления, так и предприятий-смежников продукцией рассматриваемого предприятия.

Предложено методы расчета диверсификационных мероприятий, на основе оценочного коэффициента эффективности, и синергетического эффекта. По результатам оценки определяется необходимость диверсификации как стабилизации деятельности предприятия в условиях нестабильной экономики.

**Ключевые слова:** диверсификация, диагностика, коэффициент эффективности, синергетический эффект.

**Relevance.** One of the realizable directions of stabilization and development of industrial enterprises in conditions of unstable economy is their diversification.

There are many strategic directions of enterprise's development. They give positive effect, but usually in determined period. Every company should work rhythmically, regularly paying salaries, accomplishing modernization. The diversification strategy involves the development of new products in conjunction with the development of new markets. In this case, the goods may be new to all businesses, or just for one company. This strategy provides revenue, stability and sustainability of the firm in the distant future.

**Analysis of publications** displayed that despite wide range of studies in the sphere of enterprises activity in conditions of unstable economy, insufficient attention is paid to problems of diversification.

Problems of choice of directions and diversification methods, capital structure optimization and sources evaluation of revenue were the research subject of a number of domestic and foreign scientists. In Ukraine, these issues were explored by such scientists as Amosha A.I., Bulat A.F., Blank I.A., Voychak A.V., Vitlynskyy V.V., Galushko O.S., Gerasymchuk V.G., Kudenko N.V., Oborska S.V., Oberemenchuk V.F., Prokopenko V.I., Pokropyvnyy S.F., Maslak N.G., Shershneva Z.YE. and other researchers.

Among foreign scientists should be noted the works of Thompson A.A., Strickland A.J., Ansoff I., Mintzberg H., Bowman, K., Assel G., Karlof B., Dyhtl E., Herhshhen H., Porter M., Kunz R., Kotler F., Aaker D. [1].

**The aim of research** is to develop recommendations for the improvement and optimization of the basic patterns of enterprises diversification.

**Results of research.** The term "diversification" is usually associated with a change in the characteristics of the company's product and / or market, in order to penetrate new markets, market development, and product development, which may be a reaction to changes in the structure of the market [2]. The study of the scientific literature and the history of companies that conducted diversification reveals many different reasons for this method to improve the industrial enterprise

activity. Enterprises engaged in this procedure to compensate for technological obsolescence, risk sharing, to use excess capacity, to reinvest profits and others. When deciding on diversification, higher link management must carefully analyze their prospects for future growth.

The idea of diversification has a long history. It received wide exposure in the 60-70ies of the XX century, which was typical for USSR administrative economy. Each industrial plant had to have part-time farming (pig farm, feeding complex, greenhouses, etc.). But these distracted key staff from the basic core activities, dispersed financial and material resources, the income was used inefficiently. Since 1985 this trend was practically stopped in the USSR. In place of such activity came views on the need to focus efforts on key areas of industrial activity.

The reason of this situation are the processes of production globalization, development of new forms of management (cooperatives, joint stock companies, agricultural companies, joint ventures, etc.). Transformation of economic forms took place in industrialized countries. In the early 90-ies of the XX century among the 500 largest U.S. corporations 90% existed in the form of diversified corporations. Most of them had in their complement enterprises of 11 branches and more powerful – 30-50 branches, own banks, educational centers.

Germany and Japan concerns achieved the greatest degree of diversification, which are of the multi-companies, mainly the steel ones. They chose engineering and machine building services as priorities of diversification. The Japanese concern JFE Holding hold the metal production sale part of 53.2% in total sales, engineering work – 19.7%, high technology engineering products – 22.7%. As a result of diversification metallurgical sector share in total production of these companies is reduced. For example, in the company of Nippon Steel share goal – metallurgical sector decreased from 92% in 1974 to 75% in 2003, Kawasaki Steel – from 73% to 53% [3].

Diversification is a relatively new phenomenon in the economy, designed for life by science and technological revolution, that is by the need to adapt business to rapid structural change, increasing competition due to market saturation, the development of non-core products for enterprise in unstable economy. After all, the main objective of the enterprise is profit. In these circumstances, diversification uses advantages of combining production, production of new unusual for this company products while maintaining core activities. It stabilizes the business, making it less vulnerable to downturns. Diversified company is more sustainable and competitive in comparison with highly specialized ones. It has the ability to transfuse capital into the most profitable products or services.

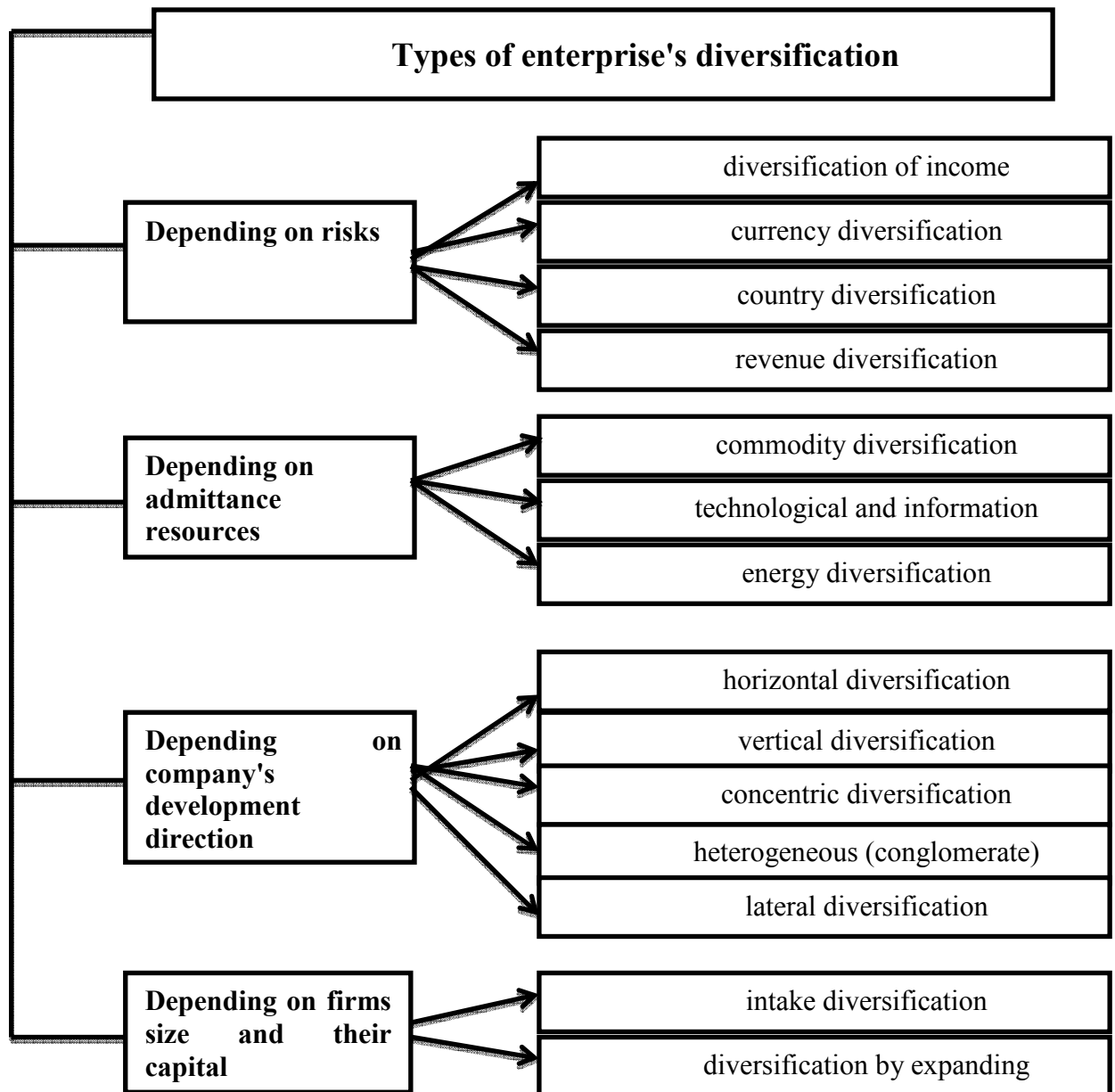
When planning industrial enterprise diversification it's important must to consider issues such as how the company should organize a search and assess opportunities of diversification, which method should be used to expand business, and how it should coordinate its activity with the activities of the subsidiary. These considerations lead to a new set of criteria for predicting the future prospects and performance of such event.

The types of diversification activities are detailed on figure 1.

Diversification has an advantage in the effect of diversity. In modern terms it displaces the effect of serial and mass production of similar products. The essence of production diversity in one large company is more profitable than producing the same products in small specialized enterprises. The main goal of diversification is income. Diversification on a large industrial enterprise enables it faster to get. Such companies have reserves of production space, equipment and qualified personnel, which can develop new production, including primary production waste, new markets, reduce risks on all stages.

The key preconditions for diversification are:

- dissatisfied demand for certain types of products, goods and services;
- uneven economic sectors development;
- falling profit in traditional manufacturing;
- development of innovative processes;
- willingness of enterprises to get a profit.



**Figure 1. Types of enterprise's diversification**

There are always problems with non specific goods, services, products market in unstable economy. Production slowly fills free demand niche. The winners are those companies that follow market's needs and have the opportunity to satisfy them.

Sectoral distribution erodes in market economy. Sector differentiation for enterprises is in the background.

In the first place is profit that can be acquired, diversifying enterprise or sector in time. This company should optimally load capacities while maintaining production potential and use it effectively.

Along with this, there are economic reasons. Over accumulation of financial resources occurs in traditional areas of activity. And in order to transform them into capital it is vital to invest in new production, namely in diversification. Financial stability is possible only under such circumstances.

Diversification promotes the saving of enterprise's and region's social stability, increases employment.

An important factor of stable enterprise's functioning is its activity in line with the law, including compliance with antitrust laws. Attached to diversification, special attention should be paid for competitors, considering benefits and requirements of antitrust laws.

Effectiveness of production diversification (ED) can be estimated in general by the formula:

$$E_d = \sum_n^m [K \cdot d_n] \quad (1)$$

where  $n$  – number of production diversification effectiveness estimated coefficients;

$m$  – amount of diversified production (un.);

$K \cdot d_n$  – assessment rate of diversification.

Economic stability of the enterprise is related directly to development of new products, new technologies and basically energy-saving ones. Market competition, which dictates the rules of the company functioning, predetermines this. Herewith it's impossible to do without production diversification in all sectors, that we have reviewed above. Studying problems of diversification management of enterprises activity in industrial sector it is necessary to consider the effects that objectively appear in formation of productive enterprise system. Identifying the complex of these effects will determine the path to achieve maximum revenue and will allow to approach to recognize effective areas of diversification within which it is possible to achieve reasonable rates of innovation in the system, potential increase of it's mobility and flexibility level.

We offer to consider the synergetic effect of production diversification by the formula:

$$k_{\text{синт}} = \sum_{j=1}^m \sum_{i=1}^n \left( K_b \frac{E_{\text{от}} \cdot i \cdot j}{100} \right) \quad (2)$$

where  $n$  – number of the synergetic effect basic components;

$m$  – number of employees to be rated at the new production;

$k_{\text{синт}}$  – coefficient of the synergetic impact factor (ranges  $1 > k > 0$ );

$K_b$  – gravimetric coefficient of the effect basic components influence;

$E_{\text{от}}$  – evaluation of each of the employees according to scale of responsibility.

Synergism is an important element of business strategy. Synergistic effect occurs when the total return from the merger of the company with existing and new products will be greater than the sum of the profitability of the activities of existing and new product separately.

I. Ansoff identifies four types of synergies (synergy):

– sale synergism – occurs when for multiple types of products the same channels of sale are used;

– operational synergies – is the result of more efficient use of assets and personnel allocation overhead, common training of staff;

– investment synergy is a display of common use of capacities, total reserves of raw materials;

– management synergism has considerable influence on the effect of the whole. [4]

The use of the formula (2) will provide objective assessment of projected production diversification, the whole enterprise.

Energy and the security of energy is vital to the economic growth of all nations including the development of the emerging counties. Relating to the former wealth creation through profitability and employment is an integral part of the sustainable development equation [5].

In conditions of unstable economy, with constant increase of energy prices important focus to stabilize enterprise's activity is to improve the energy balance structure, the increase of energy resources efficiency through their diversification. This causes some adjustment and changes in all sectors of the economy. The rise of gas prices, electricity, coal leads to higher prices for products, and therefore falling demand on the domestic and international markets. Resources that form energy



balance determine the rate of scientific and technological progress, effective intensive development of enterprises, the economy of the region and state.

Important area of diversification of energy supply is the use of alternative energy sources by domestic industrial enterprises, namely wind power, solar power, small hydroenergetic, bioenergetic and others. For today in Ukraine wind power capacity exceeding 51 MW, and from the moment when the first domestic wind power station started its functioning, almost 100 million kW/h of cheap and ecological electricity was produced. Experts estimate that the total potential capacity of the Ukrainian wind power is 5000 MW. Great potential has solar power, small river energy. The search continues, but the state support and interest of enterprises are important to achieve economic success.

Ukraine, holding large amount of natural resources do not always benefit from these resources. Furthermore the country is lacking strong institutional structures and has a lacking law which negatively affects the country's international competitiveness. Since the country is highly dependent on natural resources the country is in need to diversify its economy.

Many studies on business or economics diversification focus on related diversification of new products or services production. Firms pursuing unrelated diversification attempt to reduce business risk and systematic risk, creating a structure where each company in the corporate portfolio has access to internal capital. On the other hand, they may pursue diversification using outsourcing or co-operation between several companies. Though the tactics of these two diversification strategies are different, at a general level each is to use the infrastructure market.

**Conclusions.** Suggested directions of enterprise's diversification include enterprise's activities concerning development of new competitive products, new energy technologies, new markets and diversified energy sources, constant training, productivity increasing, innovation implementation. Unstable economic situation obliges enterprise constantly monitor markets, supply of raw materials sources, components and especially energy. Integration of businesses in global markets compels enterprises to monitor these markets, to produce competitive products.

Preconditions of enterprises diversification are loss of positions on core activity direction, profits falling, unmet demand for specific products, for services on both domestic and foreign markets. Such fluctuations are periodic in unstable economy. Those companies survive in the market competition wish are diversified in time, introduce innovation.

Enterprise's activity in the legislative field is important factor of its functioning. Diversification should consider antitrust laws. tax code.

Diversification should be held in case of possible future economic effect. Thus, recommendations described in this article are basic, although previous for the needs of diversification conduction. Only by further careful study of the probable business success the company can develop a long-term strategy that will "work twice as fast" in terms of transformation of the world and national economy.

We offer to calculate the diversification efficiency based on the estimated efficiency coefficient (1). Diversification of enterprise causes synergetic effect. It can be calculated by the formula (2). Taking into account the suggestions and techniques elucidated in article, expediency of enterprises diversification proceeding can be determined. Positive results of calculations and their implementation in economic activity of enterprise stabilizes financial condition of enterprise and make it competitive on the market.

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