

продукции машиностроительной отрасли на международных рынках является достаточно низким; г) операционная рентабельность в рамках отрасли является неудовлетворительной.

2. Украинское государство должно создать необходимые условия для повышения инвестиционной привлекательности машиностроительного комплекса. В частности, проанализировать существующие инвестиционные возможности относительно вложения средств в эту отрасль и принимать соответствующие инвестиционные решения.

3. Необходимо поддерживать конкурентоспособность продукции на мировом рынке. Для этого нужно обеспечить высокое качество продукции, ее надежность и долговечность, что требует крупных инвестиционных вливаний в научное обеспечение и обновление технологического парка производства.

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**Ключевые слова:** инвестиции, основной капитал, промышленность, машиностроение, рентабельность, конкурентоспособность.

**Ключові слова:** інвестиції, основний капітал, промисловість, машинобудування, рентабельність, конкурентоспроможність.

**Keywords:** investments, fixed assets, industry, engineering, profitability, competitiveness.

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### **PERSPECTIVES OF DIVERSIFICATION IN THE PRESENT STAGE OF THE ECONOMIC DEVELOPMENT**

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**Kalinin O. Perspectives of diversification in the present stage of the economic development.**

One of the most often applied strategies of development of activities of the entity – diversification is considered in the article The benefits and shortcomings of such strategy of diversification as diversification in untied industries, recovery, economy, portfolio restructuring, etc. were studied in the work. The strategy of multinational diversification allowing the companies, especially noted being coordinated to invest in the developments which are carried out at the international level and to get considerable benefits in the conditions of the global competition.

Strategies of diversification aren't mutually exclusive and can be used in combination depending on individual characteristics of the company for strengthening of its competitive line items, to form a basis of development of its innovative activities. The important component of management by diversification of the innovative company – the gap analysis between a current status of the company and its strategic plans on the development, received the name "gap analysis", or "the analysis of gaps" by means of which methods the company is capable to organize search of ways for achievement of effective objectives and to determine required resources and approaches is revealed. Various aspects of this strategy, and also its practical application in economic activity – in the form of creation of the diversified companies – conglomerates were determined. In article positive and negative sides of carrying out diversification of business within one company are provided. The author allocated the main directions of carrying out successful diversification. This would reduce financial losses from reorientation, and also an exit to the new markets and activities segments. Also statistical data on a financial condition of the largest world conglomerates, as example of efficiency of carrying out diversification were provided.

#### **Калінін О.В. Перспективність диверсифікації на сучасному етапі економічного розвитку.**

У статті розглядається одна з самих часто вживаних стратегій розвитку діяльності підприємства - диверсифікація. У роботі вивчені переваги і недоліки таких стратегій диверсифікації як диверсифікація в незв'язані галузі, відновлення, економія, реструктуризація портфеля та ін. Особливо відмічена стратегія багатонаціональної диверсифікації, що дозволяє компаніям скоординовано інвестувати в розробки, що проводяться на міжнародному рівні і отримувати значні переваги в умовах глобальної конкуренції. Стратегії диверсифікації не є взаємовиключними, можуть використовуватися комбіновані залежно від індивідуальних характеристик компанії для посилення її конкурентних позицій, служити основою розвитку її інноваційної діяльності. Виявлений важливий компонент управління диверсифікацією інноваційної компанії - аналіз розриву між поточним станом компанії і її стратегічними планами по розвитку, «геп-аналіз», що дістав назву, або «аналіз розривів», за допомогою методів якого компанія здатна організовувати пошук шляхів для досягнення поставлених цілей і визначати необхідні ресурси і підходи. Були визначені різні аспекти цієї стратегії, а також її практичне застосування в господарській діяльності - у вигляді створення диверсифікованих компаній - конгломератів. У статті представлені позитивні і негативні сторони проведення диверсифікації бізнесу у рамках однієї компанії. Автором були виділені основні напрями проведення успішної диверсифікації. Яка б понизила фінансові втрати від переорієнтації, а також виходу на нові ринки збуту і сегменти діяльності. Також були представлені статистичні дані про фінансовий стан найбільших світових конгломератів, як прикладу ефективності проведення диверсифікації.

#### **Калинин А.В. Перспективность проведения диверсификации на современном этапе развития.**

В статье рассматривается одна из самых часто применяемых стратегий развития деятельности предприятия – диверсификация. В работе изучены преимущества и недостатки таких стратегий диверсификации как диверсификация в несвязанные отрасли, восстановление, экономия, реструктуризация портфеля и др. Особо отмечена стратегия многонациональной диверсификации, позволяющая компаниям скоординировано инвестировать в разработки, проводимые на международном уровне и получать значительные преимущества в условиях глобальной конкуренции. Стратегии диверсификации не являются взаимоисключающими, могут использоваться комбинированно в зависимости от индивидуальных характеристик компании для усиления ее конкурентных позиций, служить основой развития ее инновационной деятельности. Выявлен важный компонент управления диверсификацией инновационной компании – анализ разрыва между текущим состоянием компании и ее стратегическими планами по развитию, получивший название «геп-анализ», или «анализ разрывов», с помощью методов которого компания

способна организовывать поиск путей для достижения поставленных целей и определять требуемые ресурсы и подходы. Были определены различные аспекты этой стратегии, а также ее практическое применение в хозяйственной деятельности – в виде создания диверсифицированных компаний – конгломератов. В статье представлены положительные и отрицательные стороны проведения диверсификации бизнеса в рамках одной компании. Автором были выделены основные направления проведения успешной диверсификации. Которая бы снизила финансовые потери от переориентации, а также выхода на новые рынки сбыта и сегменты деятельности. Также были представлены статистические данные о финансовом состоянии крупнейших мировых конгломератов, как примера эффективности проведения диверсификации.

**Defining a problem:** Necessity of the economic exploration substantiation of the diversification process at the present stage of economic development. Determine how attractive investments in diversified companies are.

**Recent research in this sphere:** The founders of the science of business management recognized figure leading international economists - A. Burleigh and H. Mynza , although a number of classical economics gave this aspect of importance - P. Drucker, John Maynard Keynes. Further their study were developed in the works of such prominent foreign scientists as well . I. Ansoff , U. Batner , D. Yermah , D.Kordon , R. Lazar, J. Lorsch , and others. Important in this regard is the study of domestic scientists O.I. Amosha , O.N. Alyмова , J.G. Bersutskoho , I.P. Bulyeyeva , .V.M. Green, V.A. Zabrodska , S.M. Ilyashenko , MO Kyzyma , Y. Makogon , M.D. Prokopenko , S.K. Ramazanov, A.A. Sadyekova , V.A. Tkachenko, R. Tyana , M Chumachenka, L.H.Chervovoyi ; . It should be noted that, despite the diversity of research on this issue there is disunity and lack of integrity of ideas about the mechanism of industrial restructuring, and, above all, organizational, economic and social components, and their analysis in the scientific literature are sporadic and not comprehensive: no evidence-based guidelines and approved by the choice of areas to improve the mechanism of strategic restructuring. A key decision in corporate strategy is the choice of horizontal scope, i.e., the set of market segments in which a firm competes. Drawing on the seminal works of Ansoff, Chandler and Rumelt, how and to what extent diversification strategy achieves performances superior to other strategies has become an open debate. The nature and drivers of the processes of diversification, the differences in the average of competitiveness and performance between diversified and undiversified firms, and the emergence of a diversification premium/discount have been pillars of the strategic management and corporate finance research agendas for almost four decades. Nonetheless, the research issue that investigates the relationship between diversification strategy (both related and unrelated) and performance has not reached the status of maturity.

**The aim of the article** to develop the scientific basis and theoretical positions and practical advice on the management of diversified companies, providing efficiency and sustainability in terms of risk and uncertainty factors in the external environment.

**Main content of research:** In recent decades, conglomerate diversification strategy (CDS) research in managerial literature and corporate finance studies has developed rapidly. These advances include a handful of ideas about the nature, antecedents, and economic and financial impact of CDS. While on the one hand, various studies maintain that CDS can create value, on the other hand, the majority of empirical studies show a negative relationship between CDS and performance, thereby estimating the existence of a diversification discount because a multiple-segment firm's consistently value below the value imputed using single-segment firms' multiples . In addition, third rather influential stream of research has argued that the relationship between CDS and performance is influenced by the institutional context.

In essence, the debate reported above is motivated by the significance of CDS as an economic phenomenon, that is usually much broader than expected by received management theories explanations (Ng, 2007). Actually, Hitt, Ireland and Hoskisson (2009) note that an unrelated multiproduct diversification strategy is frequently used in efficient and developed markets

(such as the UK and the US), as well as in emerging markets (e.g., China, Korea, Brazil, Mexico, Argentina, and India). On the ground of the notable growth of CDS literature theoretical and empirical studies that take contradictory positions on the economic relevance and consequences of CDS, we posit that time has come to assess strengths and weaknesses of the past studies, synthesize the existing research body, so as to develop a more solid knowledge base. Such an approach promises to advance our understanding of CDS as a field of investigation, develop new theoretical insights and forge some preliminary remarks to summarize the different theoretical perspectives and disciplinary traditions.

Diversification is a corporate strategy to increase sales volume from new products and new markets. Diversification can be expanding into a new segment of an industry that the business is already in, or investing in a promising business outside of the scope of the existing business.[2]

Diversification is part of the four main growth strategies defined by Igor Ansoff's Product/Market matrix: Ansoff pointed out that a diversification strategy stands apart from the other three strategies. The first three strategies are usually pursued with the same technical, financial, and merchandising resources used for the original product line, whereas diversification usually requires a company to acquire new skills, new techniques and new facilities.

One the main type of diversified company is conglomerate. A conglomerate is a combination of two or more corporations engaged in entirely different businesses that fall under one corporate group, usually involving a parent company and many subsidiaries. Often, a conglomerate is a multi-industry company. Conglomerates are often large and multinational. Conglomerates were popular in the 1960s due to a combination of low interest rates and a repeating bear/bull market, which allowed the conglomerates to buy companies in leveraged buyouts, sometimes at temporarily deflated values. Famous examples from the 1960s include Ling-Temco-Vought, ITT Corporation, Litton Industries, Textron, Teledyne, Gulf+Western, AT&T, and Transamerica. As long as the target company had profits greater than the interest on the loans, the overall return on investment of the conglomerate appeared to grow. Also, the conglomerate had a better ability to borrow in the money market, or capital market, than the smaller firm at their community bank. For many years this was enough to make the company's stock price rise, as companies were often valued largely on their return on investment. The aggressive nature of the conglomerates themselves was enough to make many investors, who saw a "powerful" and seemingly unstoppable force in business, buy their stock. High stock prices allowed them to raise more loans, based on the value of their stock, and thereby buy even more companies. This led to a chain reaction, which allowed them to grow very rapidly. However, all of this growth was somewhat illusory. When interest rates rose to offset inflation, conglomerate profits fell. Investors noticed that the companies inside the conglomerate were growing no faster than before they were purchased, whereas the rationale for buying a company was that "synergies" would provide efficiency. By the late 1960s they were shunned by the market, and a major sell-off of their shares ensued. To keep the companies going, many conglomerates were forced to shed the industries they had recently purchased, and by the mid-1970s most had been reduced to shells.<sup>[2]</sup> The conglomerate fad was subsequently replaced by newer ideas like focusing on a company's core competency. In other cases, conglomerates are formed for genuine interests of diversification rather than manipulation of paper return on investment. Companies with this orientation would only make acquisitions or start new branches in other sectors when they believed this would increase profitability or stability by sharing risks. Flush with cash during the 1980s, General Electric also moved into financing and financial services, which in 2005 accounted for about 45% of the company's net earnings. GE formerly owned a minority interest in NBCUniversal, which owns the NBC television network and several other cable networks. In some ways GE is the opposite of the "typical" 1960s conglomerate in that the company was not highly leveraged, and when interest rates went up they were able to turn this to their advantage, as it was often less expensive to lease from GE than buy new equipment using loans. United Technologies has also proven to be a successful conglomerate. With the spread of mutual funds (especially index funds since 1976), investors could more easily obtain diversification by owning a small slice of many companies in a

fund rather than owning shares in a conglomerate. Another example of a successful conglomerate is Warren Buffett's Berkshire Hathaway, a holding company which used surplus capital from its insurance subsidiaries to invest in a variety of manufacturing and service businesses.[8]

The company markets new products or services that have no technological or commercial synergies with current products but that may appeal to new groups of customers. The conglomerate diversification has very little relationship with the firm's current business. Therefore, the main reasons for adopting such a strategy are first to improve the profitability and the flexibility of the company, and second to get a better reception in capital markets as the company gets bigger. Though this strategy is very risky, it could also, if successful, provide increased growth and profitability. In the table 1 there were described main advantages and disadvantages of conglomerates in the modern economic conditions.

Table 1 - Advantages and disadvantages of conglomerates in the modern economic conditions.[1]

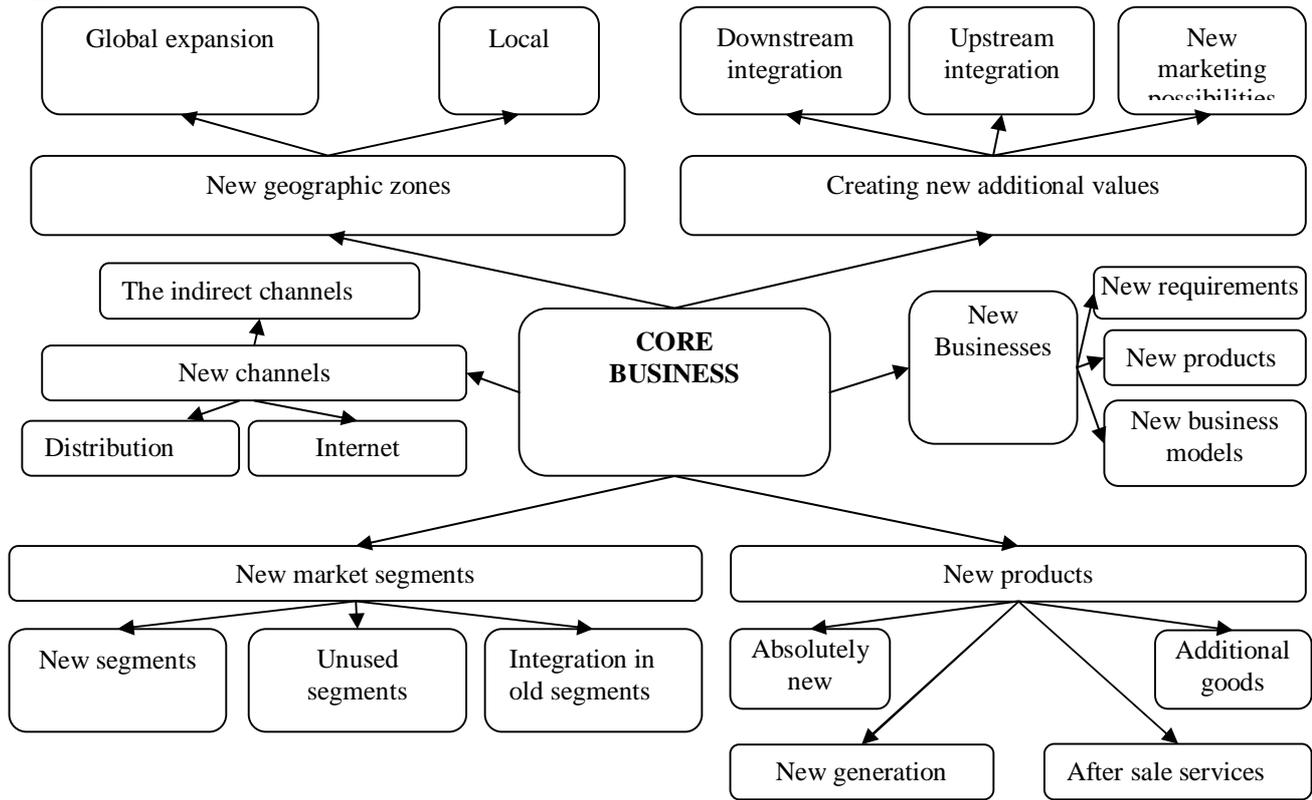
Advantages	Disadvantages
<p>Diversification results in a reduction of investment risk. A downturn suffered by one subsidiary, for instance, can be counterbalanced by stability, or even expansion, in another division. For example, if Berkshire Hathaway's construction materials business has a good year, the profit might be offset by a bad year in its insurance business. This advantage is enhanced by the fact that the business cycle affects industries in different ways. Financial Conglomerates have very different compliance requirements from insurance or reinsurance solo entities or groups. There are very important opportunities that can be exploited, to increase shareholder value.</p> <p>A conglomerate creates an internal capital market if the external one is not developed enough. Through the internal market, different parts of conglomerate allocate capital more effectively.</p> <p>A conglomerate can show earnings growth, by acquiring companies whose shares are more discounted than its own. In fact, Teledyne, GE, and Berkshire Hathaway have delivered high earnings growth for a time.</p>	<p>The extra layers of management increase costs</p> <p>Accounting disclosure is less useful information, many numbers are disclosed grouped, rather than separately for each business. The complexity of a conglomerate's accounts make them harder for managers, investors and regulators to analyze, and makes it easier for management to hide things.</p> <p>Conglomerates can trade at a discount to the overall individual value of their businesses because investors can achieve diversification on their own simply by purchasing multiple stocks. The whole is often worth less than the sum of its parts.</p> <p>Culture clashes can destroy value</p> <p>Inertia prevents development of innovation.</p> <p>Lack of focus, and inability to manage unrelated businesses equally well.</p>

To make possibility of disadvantages lower there it was proposed to develop company in spheres that were described in the picture 1.

Through an in-depth analysis of the GE case study, we have illustrated that heterogeneity in the performance of conglomerate firms is a byproduct of the influence of top management and, in this way, affects leadership, strategic guidance, and resource allocation decisions. In this regard, we have used a particularly significant case, that of GE under the two-decade leadership of Jack Welch (1981-2001). Besides being one of the most important conglomerates in the world for market cap and turnover, since the McKinsey/GE matrix in the early 1970s to Six Sigma in the early 1990s, GE has always acted as a kind of compass and guiding light for both business practice and academia in strategic management and organization design.

The narrative approach, based on our proposed in-depth longitudinal case study spanning twenty years, clarifies how Jack Welch renewed GE's apparently mature business model and laid

the foundations for renewal and sustainable competition through the creation of GE’s identity as a winner.



Picture 1. Spheres of successful realization diversification strategy in modern conglomerates

As a sequence of realization the strategic developments described in picture 1 it was combined financial information about biggest diversified conglomerates of the world’s economy. This data was depicted in table 2 and companies were ranked according to their market capitalization.

In particular, we closely and thoroughly depicted the three waves of the Welch revolution. Whereas in the first phase (or the *hard* one), Welch mainly focused on developing a new vision for GE and on coherent business areas, which allowed GE to be number one or two in growth markets, the winning idea in the second phase (or the *soft* one) was to develop and emphasize a method to achieve and maintain the fit between GE identity and its human capital. Finally, the third phase focused on GE’s operating processes and on its continuous improvement. We have shown how Jack Welch, in transforming GE from a bureaucratic behemoth to a dynamic and revered powerhouse, manifested his personality in both the structures and the processes of GE and epitomized how they reflected both nature-based and nurture-based experiences (Pervin, 1996). Put simply, Welch was able to create a lean, agile, and creative organization where executives “not only had great energy and commitment to the company’s value, but also had competitive drive and the ability to spark great excitement in employees and colleagues. [1]

In more general terms, our case study shows that strategic leadership can play a key role in ensuring a conglomerate’s success. We illustrate how heterogeneity in the performance of conglomerate firms can derive from the role exerted by exceptional strategic leadership to avoid the so-called “conglomerate traps”. From this perspective, we offer an explanation of the paradox offered by the generalizability of econometric studies applied to diversified firms.

The multiple contributions of this study are summarized as follows. First, we have made some advancement towards solving the extant puzzle of the limited generalizability of empirical diversification results by emphasizing the consistent role of strategic leadership in strategy formulation and implementation throughout a significant time period of two decades from 1981-

2001. Second, we contribute to organization design by re-defining and applying the concept of strategic leadership to the empirical context of the conglomerate diversification strategy. Third, this study bridges a gap among the resource-based view, the dynamic capability perspective, and the leadership literature in that, in the context of conglomerate organizations, we underscore that managerial discretion and the strategic leader's characteristics are inextricably linked to the function of organizational processes, structures and outcomes. Fourth, by exploring the processes of creation, change, and integration that characterize successful conglomerates, and by taking advantage of an investigation into the relevant blueprints of strategic leadership, this study is able to provide relevant insights for management scholarship and practice. [5]

Table 2 – Financial information about top 10 biggest worlds conglomerates

Rank	Company	Country	Sales	Profits	Assets	Market Value
1	<b>General Electric</b>	United States	\$147.4 B	\$13.6 B	\$685.3 B	\$243.7 B
2	<b>Siemens</b>	Germany	\$100.6 B	\$5.7 B	\$134.4 B	\$91.9 B
3	<b>United Technologies</b>	United States	\$57.7 B	\$5.1 B	\$89.4 B	\$85.5 B
4	<b>3M</b>	United States	\$29.9 B	\$4.4 B	\$33.9 B	\$73.4 B
5	<b>Honeywell International</b>	United States	\$37.7 B	\$2.9 B	\$41.9 B	\$57.6 B
6	<b>ABB</b>	Switzerland	\$40.1 B	\$2.8 B	\$48.8 B	\$53.4 B
7	<b>Hutchison Whampoa</b>	Hong Kong-China	\$31.3 B	\$3.4 B	\$103.7 B	\$45.1 B
8	<b>Jardine Matheson</b>	Hong Kong-China	\$39.6 B	\$1.7 B	\$63.5 B	\$43.3 B
9	<b>Danaher</b>	United States	\$18.3 B	\$2.4 B	\$32.9 B	\$43.1 B
10	<b>Philips</b>	Netherlands	\$32.7 B	\$0.3 B	\$35.8 B	\$27.5 B

Finally, shedding new light on the paradox of why some conglomerate firms create exceptional value when others generally suffer a diversification discount, this paper creates solid groundwork to pave the way for the convergence between early inquiry in corporate finance, strategic management and organizational leadership research. More specifically, this paper has investigated how the success of a large conglomerate can depend on exceptional strategic leadership that is *complementary* to the value of resources and their deployment over a wide range of strategic processes, structures and activities. Because previous research has separately identified three conglomerate traps (i.e., managerial complexity, structural inertia and misallocation of resources), we have emphasized the explicit strategic leadership traits helpful in enabling companies to avoid the traps of the conglomerate diversification strategy. The logical validity (Cook and Campbell,

1979; Yin, 2003) of our case study resides in the causal relationships between these variables and the results. It consists of clarifying the following: (a) the absolute novelty of Welch's idea about how conglomerate firms can create value and the advanced understanding of the way to implement it (in fact, GE avoided failure due to the managerial complexity trap because Welch was a strategically excellent leader bearing a sheer awareness of the sources of GE's value creation); (b) the transactional leadership characteristics that he presented allowed GE to overcome the misallocation of resources trap; (c) the transformational leadership mechanisms that shifted the leader's personality traits to the firm's traits through a relationship of influence, thereby creating the conditions required to prevent failure due to structural inertia.

The findings of the GE case study provide confirmative evidence that managerial excellence, transaction leadership, and transformational leadership have a grand and significant impact on the success of the conglomerate diversification strategy. Considering the concept of exceptional management leadership as an intelligent mix of these three concepts, we argue that Jack Welch was an exceptional strategic leader during his tenure as CEO in the context of GE (1981-2001). Specifically, his exceptional strategic leadership was linked to the sheer awareness of the values options that other people did not see, the capacity to transcend short-term goals and to focus on the higher-order goals, and the focus on the proper exchange of resources.

**Conclusion.** In conclusion, a myriad of open questions remain unwrapped in the literature as concerns the relationship between conglomerate strategy and performance. Contrary to the common sense, this makes the one on conglomerates an intriguing subfield of research located at the interfaces among a triad of relevant disciplines: strategic management, governance, and finance. Accordingly we stress that, in order to understand better the conglomerate value creation processes in financial markets, it is very important to proceed matching the applicable tools of corporate finance with the principles of governance and the rejoinders of strategic management.

As concerns the limitations of this study, before closing we feel to pinpoint two specific categories: methodological boundaries and interpretation bias. As concerns the former, we recognize that, while the bibliometric coupling approach emphasizes the significance to use a method that is deemed as absolutely objective, it presents some drawbacks. In fact, first bibliographic coupling is not able to separate the citations along with the coherence between the text. Second, while we performed the cluster analysis of the articles assuming that each of them fitted only in a single cluster, we acknowledge that the content of some articles may rest at the intersections of different clusters. As regards the latter, we concede that, since a part of the analysis performed complementary to the bibliographic methods used is inevitably left to our considerate understanding, this study, as any other research effort, is to some extent liable to the interpretation bias of the authors.

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