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Impact of diversification on strategic business management

Kateryna Buzhymska*

PhD in Economics, Associate Professor
Zhytomyr Polytechnic State University
10005, 103 Chudnivska Str., Zhytomyr, Ukraine
https://orcid.org/0000-0002-4196-7993

Iryna Tsaruk

PhD in Economics, Associate Professor
Zhytomyr Polytechnic State University
10005, 103 Chudnivska Str., Zhytomyr, Ukraine
https://orcid.org/0000-0002-9628-3257

Svitlana Biriuchenko

PhD in Economics, Associate Professor
Zhytomyr Polytechnic State University
10005, 103 Chudnivska Str., Zhytomyr, Ukraine
https://orcid.org/0000-0002-6340-8607

Olha Pashchenko

PhD in Economics, Associate Professor
Zhytomyr Polytechnic State University
10005, 103 Chudnivska Str., Zhytomyr, Ukraine
https://orcid.org/0000-0002-5003-8977

Ihor Svitlyshyn

PhD in Economics, Associate Professor
Zhytomyr Polytechnic State University
10005, 103 Chudnivska Str., Zhytomyr, Ukraine
https://orcid.org/0000-0002-3177-7774

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*Corresponding author

Abstract. This study focused on analysing the role of diversification as a tool that enables businesses to adapt to changes in the external environment, mitigate risks, and ensure sustainable development. The study explored the main types of diversification: horizontal, vertical, concentric, and conglomerate. Each type of strategy has its own distinct characteristics, benefits, and risks. Horizontal diversification allows companies to expand their product range by utilising existing resources and knowledge, facilitating rapid entry into new markets. Vertical diversification offers the opportunity to control the supply chain or distribution channels, reducing reliance on external partners and enhancing operational efficiency. Concentric diversification enables companies to expand their business by leveraging existing competencies and technologies, thereby minimising risks. Conglomerate diversification, although the most risky, allows businesses to enter new industries unrelated to their core operations, potentially increasing profits. Successful use of different diversification strategies to achieve market leadership is illustrated by companies such as Disney, Tesla, and Mironivsky Hliboproduct (MHP). Tesla employed all types of diversification, controlling every stage of the production of its electric vehicles, including the creation of infrastructure for charging stations. Disney also implemented diversification by expanding its presence through the acquisition of studios, the development of theme parks, and the launch of streaming services. MHP demonstrated examples of diversification by controlling the entire production chain from raw materials to finished products, while also expanding its range of meat products. The conclusion emphasised the importance of a cautious and well-considered approach when selecting a diversification strategy, considering available resources, market opportunities, and the specific characteristics of the business. Successful implementation of a diversification strategy allows companies not only to reduce risks but also to strengthen their position in the face of volatile economic conditions and competitive pressure

Keywords: business strategies; risk management; market expansion; financial performance; competitiveness

Introduction

The current business environment is characterised by rapid changes in external conditions, intensified competition, and continuous technological innovations. Enterprises are compelled to seek new approaches to maintain their competitiveness and ensure sustainable development. One of the most effective methods that allows businesses to adapt to change and minimise risks is diversification. Diversification involves expanding the business by entering new markets and developing new products or services, which provides an opportunity to reduce dependence on a single source of income or market.

The relevance of this subject is driven by the fact that contemporary enterprises increasingly face market instability, which demands flexibility in management and strategic planning. In both global and Ukrainian economies, a substantial number of companies adopt diversification as a means of protection against economic crises, fluctuations in demand, and industry changes. This makes the impact of diversification on strategic management an important subject for investigation. The issue lies in the fact that diversification does not always yield the expected results. Poorly planned and implemented diversification strategies can lead to the dispersion of resources, a loss of focus on the company's core competencies, and, consequently, a reduction in its effectiveness (Hlushko, 2024; Rexha *et al.*, 2024)). It is essential to examine which forms of diversification are most effective for specific types of enterprises and the factors that contribute to the successful implementation of diversification strategies.

From a theoretical perspective, diversification is a key component of strategic management. It encompasses various approaches, such as horizontal, vertical, concentric, and conglomerate diversification. Each of these types has its own advantages and disadvantages, which affect the company's activities in different ways. Horizontal diversification involves entering new markets with similar products, while vertical diversification entails integrating production or distribution processes. Concentric diversification focuses on using existing competencies to explore new business areas, whereas conglomerate diversification involves venturing into entirely new fields of activity. Thus, the impact of diversification on a company's strategic management is a multifaceted process that requires careful analysis and consideration of the specific characteristics of each enterprise.

Researchers provide varying interpretations of the diversification process, focusing on different aspects of its impact on businesses. Š. Bojnec & K. Knific (2021) consider diversification a key element for the long-term survival and growth of enterprises. They emphasise that well-planned diversification helps companies adapt more rapidly to changes in the market environment and increases their resilience to external challenges. M. Ilchuk *et al.* (2023) highlight that diversification is an effective tool for growth through expansion into new sectors. In their view, the success of diversification depends on the company's ability to manage new divisions efficiently. G. Fuertes *et al.* (2020) also underscore the importance of strategic planning in the context of diversification. The authors stress the necessity of a thorough analysis of internal and external factors affecting the enterprise, particularly its resources and competitive advantages. A. Nagličič *et al.* (2020) propose considering diversification through the lens of a product-market matrix, distinguishing strategies for entering new markets, developing new products, and diversification itself. M.S. Oladimeji & I. Udosen (2019) view diversification as crucial for building competitive advantages. They emphasise that this strategy can strengthen a company's market position through the integration of related businesses or by leveraging existing resources in new areas. H. Le (2019) examined management aspects in enterprises implementing diversification, noting that its success depends on the ability to achieve synergy between different business areas. J. Wu *et al.* (2020) analysed the relationship between diversification and company performance, finding that diversified companies can achieve higher profitability if their new business areas complement the core business.

O. Zghurska *et al.* (2021), in turn, explored market structures and strategic interactions between companies under conditions of diversification, suggesting that it can offer additional advantages in new markets while simultaneously raising entry barriers for other market participants. T. Sohl *et al.* (2020) highlight the importance of market analysis before implementing a diversification strategy. The authors indicate the need to consider shifts in consumer preferences and market conditions to avoid inefficient investments in new products or markets. E. Sobczak & D. Głuszczuk (2022) focus on the role of innovation in the diversification process, arguing that innovative diversification can become a driving force for economic growth by creating new markets and products.

Various authors confirm the importance of diversification as a strategic management tool. However, its effectiveness depends on several factors, including the competencies of the enterprise, market conditions, and the ability of a company to manage diverse areas of activity. Despite the numerous studies dedicated to diversification, there remain several aspects that are under-researched. There is a lack of comprehensive studies that analyse the impact of different types of diversification (horizontal, vertical, concentric, and conglomerate) on the effectiveness of strategic management in turbulent market environments. Another issue relates to the assessment of risks and potential negative consequences of unsuccessful diversification.

The purpose of this study was to evaluate the impact of various types of diversification on the strategic management of enterprises, considering the risks and opportunities for companies of different sizes in a dynamic market environment. The objectives of the study were to assess the risks and potential negative outcomes of diversification on operational efficiency and to identify the key factors for the successful implementation of diversification strategies across different industries.

Materials and Methods

This study is based on a comprehensive approach to analysing diversification strategies, using leading international companies such as Disney, Tesla, and the Ukrainian agribusiness company "Myronivsky Hliboproduct" (MHP) as case studies. Both general scientific and specialised economic methods of analysis were employed. The primary approach was content analysis, which allowed for the collection and systematic review of a large volume of secondary data, including publications, annual company reports, financial indicators, and analytical reviews. These materials were obtained from publicly available sources, such as reports from Disney (2024), Tesla (2024), and MHP (n.d.), as well as analytical data from financial platforms such as Macrotrends (2024a; 2024b). Data collection and analysis were conducted through qualitative analysis of secondary sources, enabling a focus on the key aspects influencing the selection and implementation of diversification strategies by companies.

The next step of the study involved using comparative analysis to examine different types of diversification strategies, including horizontal, vertical, concentric, and conglomerate diversification. The comparative method allowed for the analysis of different approaches to diversification across three companies from distinct industries, highlighting their common features and differences. The selection of Tesla, Disney, and MHP was driven by the diversity of their activities and the successful application of diversification strategies, providing a detailed examination of the advantages and risks associated with each type of diversification.

The case study method was employed for an in-depth analysis of specific examples of diversification in each company. Tesla was examined in terms of vertical diversification, allowing the company to control all stages of electric vehicle production and service, from raw material procurement to the sale of the final product. Moreover, Tesla's horizontal diversification in energy solutions, such as the production of solar panels and batteries, was also explored. In the case of Disney, the study covered horizontal, vertical, and conglomerate diversification, which spans across various media platforms, the entertainment industry, and other sectors, contributing to the company's global growth and expansion into different markets. MHP was selected as an example of a company employing concentric and vertical diversification, controlling all stages of production from raw material cultivation to the manufacturing and sale of the final product.

To identify the risks associated with diversification strategies, a systems analysis method was utilised, enabling the identification and assessment of potential threats that may arise when implementing new business areas. Specifically, risks such as increased management complexity, loss of focus on core business, rising costs, and the potential negative impact on the company's overall strategy were analysed through the examples of the companies under consideration. The analysis of both successful and unsuccessful diversification cases helped identify key success factors, such as the availability of resources, synergy between new and core business activities, and a deep understanding of market conditions.

Through a comprehensive approach to analysis, the use of various methods, and the examination of specific company case studies, systematic data on the effectiveness of different diversification strategies was obtained.

Results

Diversification is a vital strategy employed by businesses to reduce risks, expand markets, and ensure sustainable growth. Its essence lies in the expansion of business activities through the introduction of new products, services, or entry into new markets, allowing a company to reduce its dependency on a single source of revenue. There are several main types of diversification, each with its own characteristics, risks, and advantages.

Horizontal diversification is the most common strategy among businesses aiming to enter new markets closely related to their core activities. This involves the development of new products or services that are similar to the primary operations of a company and can be marketed to existing customers. Horizontal diversification enables businesses to leverage their existing resources, knowledge, and market channels for a swift market entry or to attract new consumer groups (Dhir & Dhir, 2015). This strategy is particularly effective for firms with strong market positions and significant brand equity. A successful example of horizontal diversification is Apple, which started with the production of computers and gradually expanded its product range to include smartphones, tablets, watches, and other electronic devices, maintaining a strong connection between its products.

Vertical diversification involves a company expanding either upstream or downstream along the value chain. It can take two forms: backward integration, where a company begins to control the supply of raw materials or components for its own production, and forward integration, where the firm takes control of the distribution or sale of its products. This strategy allows businesses to reduce their dependence on suppliers or intermediaries and enhance control over product quality and operational costs (Block *et al*., 2016). For instance, car manufacturer Tesla has actively pursued vertical diversification by controlling battery production and distributing its electric vehicles through its own network of stores.

Concentric diversification refers to the expansion of a business based on existing competencies, technologies, or market positions. A company employing concentric diversification seeks to develop new products or services that complement its core business. This form of expansion is based on the firm's existing resources or expertise, making it less risky compared to other forms of diversification (Kim *et al*., 2017). For example, Samsung, which initially focused on electronics, utilised its research and development capabilities to enter the home appliance market, complementing its primary business.

Conglomerate diversification is the riskiest strategy, as it involves expanding a company into entirely new industries that are unrelated to its core activities. This approach often arises when a company seeks to diversify its investments or mitigate risks associated with a downturn in its primary sector. While conglomerate diversification can yield high returns, it is also fraught with significant risks due to a lack of experience in the new field (Nguyen, 2018). A notable example of this strategy is the General Electric Corporation, which has expanded its operations into various sectors – from aviation to financial services – moving beyond its initial focus on electronics.

Diversification plays a crucial role in ensuring the resilience of a company in the market, particularly in the face of intense competition and rapid changes in the economic environment. One of the primary advantages of diversification is the reduction of dependence on the core business. For companies operating in highly competitive markets or unstable conditions, diversification allows for risk distribution by entering new sectors or developing new products (Kotsenko *et al*., 2023).

Another important factor is the creation of synergy among different business lines. Diversification can help companies generate synergistic effects between various products or services, enhancing overall efficiency and reducing costs. For instance, horizontal diversification allows the utilisation of shared resources, such as production capacities, distribution channels, marketing efforts, or research and development, to serve multiple markets simultaneously. This enables a company to increase profitability by making more effective use of its existing assets (Chen *et al*., 2019). Moreover, synergy can manifest in the form of cross-selling, where products or services from one business segment contribute to increased sales in another segment.

Enhancing a company's innovative potential through diversification is also a critical component of competitiveness. Expanding into new areas encourages companies to adopt innovative technologies and processes, which improves the quality of products or services and meets new consumer demands. Firms that actively engage in diversification can implement innovations across multiple sectors simultaneously, thereby increasing their chances of future success. For example, Google, which began as a search engine, has leveraged diversification in artificial intelligence, mobile platforms, and autonomous vehicles to secure leading positions in various technological fields.

Diversification can serve as an effective means of strengthening a brand. Entering new markets or creating new products allows companies to extend their brand influence and enhance brand recognition among diverse consumer groups. This enables the company to increase its market share and strengthen relationships with customers. Successful expansion of product or service offerings can solidify a company's reputation as a leader in its industry, fostering greater trust among its clientele (Shim, 2019).

Despite the numerous advantages, diversification as a business development strategy has its drawbacks. Each type of diversification is accompanied by specific risks that can affect the success of a company. These risks may include increased management complexity, loss of focus, financial expenditures, and potential negative consequences for the overall business strategy. Expanding product offerings can lead to the dilution of a company's resources, especially if new products require substantial investments in research, development, or marketing (Holzmayer & Schmidt, 2020). When a company attempts to occupy multiple market niches simultaneously, it risks losing its key competitive advantages in its core business. For example, Kodak, once a leader in the photography industry, tried to diversify its business by investing in digital technologies and other sectors but ultimately lost its market position due to insufficient attention to the major changes in the photography industry (Menezes & Pinto, 2022).

Furthermore, diversification can lead to product "cannibalisation", where new products or services begin to compete with existing products from the same company, resulting in decreased sales. This can become problematic if the company is unable to manage its product portfolio effectively and avoid duplication or market saturation with similar offerings. One of the main disadvantages of vertical diversification is the increase in management complexity. Taking control of new parts of the supply chain or sales process necessitates that a company possesses in-depth knowledge of these processes and adequate resources to manage them. Expanding into new areas of activity may require significant investments in infrastructure, personnel, and technology, which do not always justify expectations. For example, companies seeking to control the entire production process, from raw materials to the sale of the final product, may encounter challenges in effectively managing all links in this process. Vertical diversification can also reduce the flexibility of a company. Controlling a large part of the supply chain makes a company more dependent on its internal processes, potentially complicating its ability to adapt to external market changes.

An important concern with concentric diversification is the risk of excessive reliance on existing competencies. A company that focuses too heavily on leveraging its own technologies or expertise may miss out on innovations or radical changes in the industry. For instance, firms investing in the development of new products based on their conventional competencies may find that these new products do not meet the needs of the contemporary market (Fan & Xiao, 2023). This can limit a company's adaptability and lead to a loss of market position. Even if a company utilises its existing resources, the development and launch of new products still require investment. If new products fail to meet expectations, this can result in severe financial losses.

The primary drawback of conglomerate diversification strategies lies in their high level of uncertainty. When a company enters unfamiliar markets, it faces difficulties associated with a lack of experience, knowledge, and contacts in the new sector. This increases the risks of making poor management decisions, underestimating costs, or misunderstanding the complexities of the new area of operation. Conglomerate diversification can also lead to the dispersion of managerial resources (Bellon *et al.*, 2020). Managing completely disparate businesses requires specialised knowledge and different approaches, complicating the overall management of the company. In addition, the emergence of new, unrelated businesses can dilute the strategic focus of the company, diminishing its capacity to concentrate its efforts effectively on its core areas of activity.

The Walt Disney Company is one of the most prominent examples of successful business diversification. Its transformation from an animation studio into a global media giant illustrates how a well-planned diversification strategy can lead to tremendous success. Throughout its history, Disney has employed various forms of diversification, including horizontal, vertical, and conglomerate strategies.

Disney began its operations as a producer of animated films, but over the decades, the company has actively diversified its business by acquiring other studios and developing new products for diverse audiences. In 2006, Disney acquired Pixar, the studio behind animated blockbusters such as Toy Story, Finding Nemo, and Cars, for USD 7.4 billion. This acquisition significantly strengthened Disney's position in the animation market, resulting in a series of successful film projects and increased profitability. Furthermore, Disney acquired Marvel Entertainment for USD 4 billion, gaining access to a vast array of comic book characters and franchises. The Marvel Cinematic Universe has emerged as one of the most successful media projects in history, generating over USD 25 billion at the global box office. This expanded Disney's audience reach and substantially solidified its position in the global entertainment market. In 2012, Disney also acquired Lucasfilm for USD 4.05 billion, which included rights to the Star Wars and Indiana Jones franchises. Star Wars remains one of the most lucrative franchises worldwide, and the release of new films and series has helped Disney maintain audience interest for decades.

In addition to focusing on content creation, Disney has also actively worked to expand its distribution and infrastructure to deliver entertainment through various channels. One of the most successful avenues of vertical diversification for Disney has been the establishment of theme parks. The first Disneyland Park opened in California in 1955, and over the following decades, the company launched several other parks in the USA, Europe, and Asia, including Disney World in Florida, Disneyland Paris, Tokyo Disneyland, and Shanghai Disney Resort. These theme parks have become significant revenue sources, attracting millions of visitors each year. In 2022, revenues from the parks and resorts exceeded USD 28 billion. The streaming service Disney+ was launched in November 2019 and achieved 100 million subscribers within two years, with numbers exceeding 160 million by 2023. Disney+ has positioned the company strongly in the digital media market, enabling it to compete with Netflix and Amazon Prime Video. In 1996, Disney acquired the ABC television network, granting it access to a vast array of television channels and sports broadcasting through ESPN. This presence in television has allowed Disney to control the distribution of its content across various media platforms.

Over time, Disney has also begun to actively develop areas not directly related to media or entertainment. The company has become a significant player in innovation and new technologies, investing in the development of technological solutions for entertainment. This includes not only streaming services but also the use of artificial intelligence, virtual reality, and augmented reality to enhance customer engagement. Revenue and profit figures for the company are presented in Figure 1.

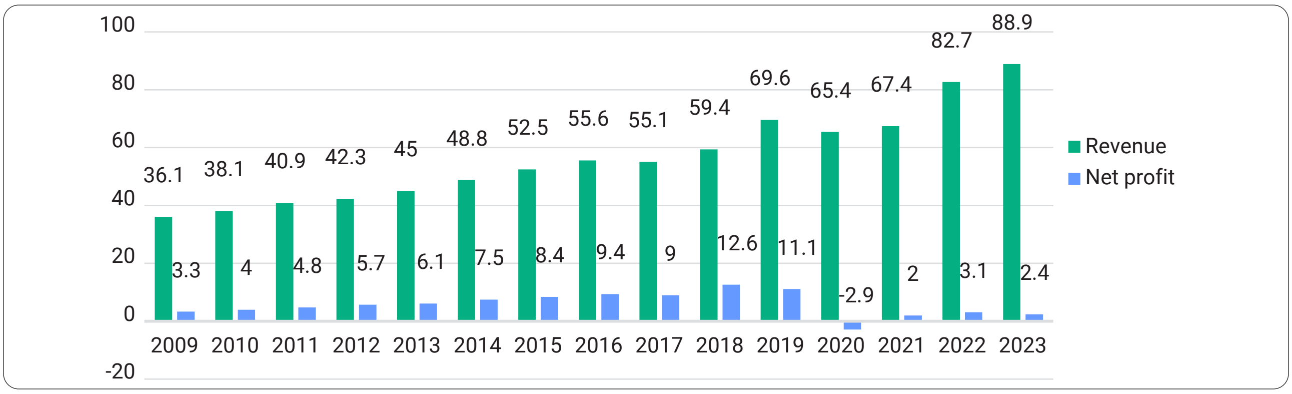

Figure 1. Revenue and profit of Disney from 2009 to 2023 (in billion USD)
Source: developed by the authors based on data from Macrotrends (2024a)

From 2009 to 2023, Disney demonstrated stable growth in revenue and profits, attributable to successful diversification and business expansion, particularly through the acquisition of major franchises such as Marvel and Lucasfilm and opening new theme parks. However, the COVID-19 pandemic in 2020 caused a decline in revenue and resulted in a net loss for the first time in decades. Following this, the company began a gradual recovery, and although revenues reached record levels in 2023, net profit remained below the peak figures of 2018-2019, potentially indicating increased expenditures on streaming services and other new initiatives.

Tesla is one of the most notable examples of an innovative company that has leveraged diversification to establish a new standard within the automotive, energy, and technology sectors. Founded in 2003, Tesla has become a pioneer in electric vehicle production and has expanded its operations into various markets through diverse diversification strategies. Since its inception, Tesla has impacted multiple industries and is now viewed as a leader in the transition towards more environmentally sustainable technologies.

One of the initial instances of Tesla's diversification was the expansion of its electric vehicle lineup, which enabled the company to penetrate various segments of the automotive market. The first car of the company, the sporty electric Roadster, was released in 2008 and demonstrated the potential of high-performance electric vehicles with significant driving range. It demonstrated the potential of electric vehicles with high performance and long driving range. The launch of the Model S marked the beginning of mass production for premium electric vehicles. This sedan gained popularity due to its extensive range (up to 600 km on a single charge), innovative autopilot features, and high performance, helping Tesla to establish a reputation as a technological leader. The company continued its diversification by releasing the Model X crossover, which became the first electric sport utility vehicle with unique "falcon-wing" doors and high safety ratings. The Model 3 emerged as a significant breakthrough, allowing Tesla to enter the mass market with a more affordable electric vehicle. Model 3 became the best-selling electric car globally, achieving remarkable success due to its pricing, driving range, and extensive array of technological innovations.

Tesla is actively pursuing vertical integration by controlling both the manufacturing process and the infrastructure for its electric vehicles and energy products. Tesla's manufacturing plants, known as Gigafactories, play a crucial role in the vertical diversification strategy of the company. The first Gigafactory in Nevada was opened in 2016, and since then, the company has established several such factories worldwide, including in China, Germany, and Texas. These facilities enable Tesla to independently produce batteries and electric vehicles on a large scale, thereby reducing costs and enhancing control over the supply of components. Tesla has developed its own global network of charging stations for its electric vehicles, which has become a key aspect of its vertical integration strategy. The Supercharger network allows Tesla drivers to quickly charge their vehicles worldwide, facilitating the use of electric vehicles and enhancing their appeal to consumers.

Tesla has also diversified into other high-tech sectors, moving beyond conventional automotive manufacturing. The company is a pioneer in the development of autonomous driving technologies. Its Autopilot system is among the most advanced on the market, and the company continues to invest in the creation of fully autonomous vehicles. Tesla collects data from millions of vehicles, which helps to refine its artificial intelligence algorithms, a critical step towards developing driverless cars. In 2021, Tesla announced the development of the Tesla Bot, a humanoid robot designed to assist with routine tasks. This project illustrates how the company aims to leverage its expertise in artificial intelligence and robotics to enter an entirely new market. Tesla is also expanding its operations into commercial transport. The company introduced the Tesla Semi, an electric truck designed to reduce fuel costs for logistics companies, as well as the Cybertruck, which combines innovative design with high performance. Figure 2 illustrates the company's revenue and profit from 2009 to 2023.

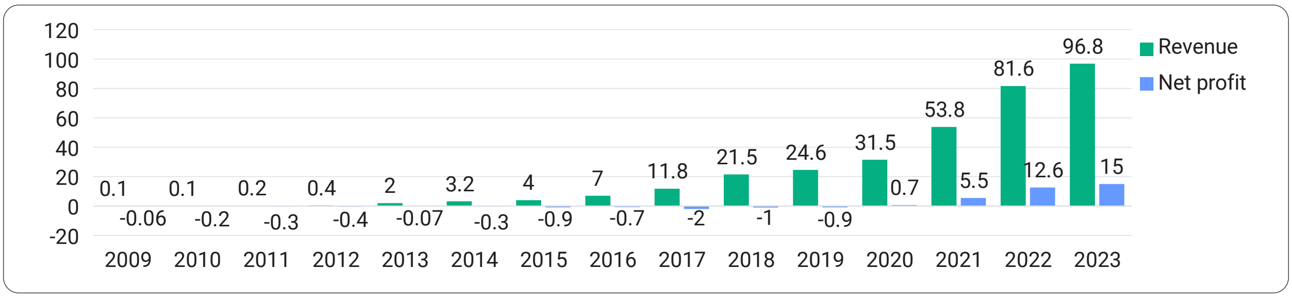

Figure 2. Revenue and profit of Tesla from 2009 to 2023, USD billion
Source: developed by the authors based on Macrotrends data (2024b)

The figure demonstrates the evolution of the company from a stage of significant losses to stable profits and revenue growth. In its early years, Tesla faced financial challenges, despite a gradual increase in revenue; however, 2020 marked a turning point when the company achieved its first net profit, signalling the effectiveness of its strategies. Subsequently, Tesla continued to exhibit impressive financial growth, driven by the successful launch of new vehicle models and expansion into new areas such as battery production and energy solutions. Key factors in this success included innovative technologies, expanded manufacturing capabilities, and the ability to adapt to market changes, allowing the company to emerge as a leader in the electric vehicle sector.

MHP is one of the largest agro-industrial companies in Ukraine, distinguished by its strategic diversification within the agribusiness and food industry. Founded in 1998, the company initially specialised in poultry production, but over time expanded its business by employing various diversification strategies to enhance its competitiveness in both Ukrainian and international markets. MHP actively pursues horizontal diversification, broadening its product range and introducing new items to meet consumer demands. The primary activity within the company remains poultry production, but MHP has gradually begun producing other types of meat, such as pork and beef. This strategy has enabled the company to mitigate risks associated with fluctuations in demand for a single product type and attract new consumers. MHP has introduced several proprietary brands to the market, including "Nasha Ryaba", "Piryatin", and "Smachna Sprava", allowing it to secure competitive positions in the retail sector. In response to the growing demand for ready-to-eat meals and convenient food products, MHP has also invested in the production of meat semi-finished products and prepared meals, enabling the company to respond swiftly to shifts in consumer trends.

The company implements vertical diversification by controlling most production stages, which provides it with competitive advantages in the market. MHP owns and operates its poultry farms, enabling it to control the quality of raw materials, reduce production costs, and ensure supply stability. The company also possesses agricultural enterprises that grow grains and feed crops essential for poultry feeding. This vertical integration ensures stability in the production process and reduces dependence on external suppliers. MHP has its own facilities for processing meat products, which helps to lower transportation costs and enhance business efficiency.

In addition to its agribusiness operations, MHP is actively expanding into new business segments. It is one of the largest exporters of poultry in Ukraine, supplying its products to over 50 countries worldwide, including Europe and the Middle East. This allows the company to capitalise on global demand and expand its market reach. MHP is investing in renewable energy projects, particularly biogas plants, enabling the company to utilise production waste for energy generation. This initiative not only reduces costs but also enhances the environmental profile of the company. The company is actively implementing new technologies in agribusiness, including the automation of production processes and innovative solutions to improve product quality, which allows it to remain at the forefront of its industry. Figure 3 illustrates the revenue and profit of MHP from 2009 to 2023.

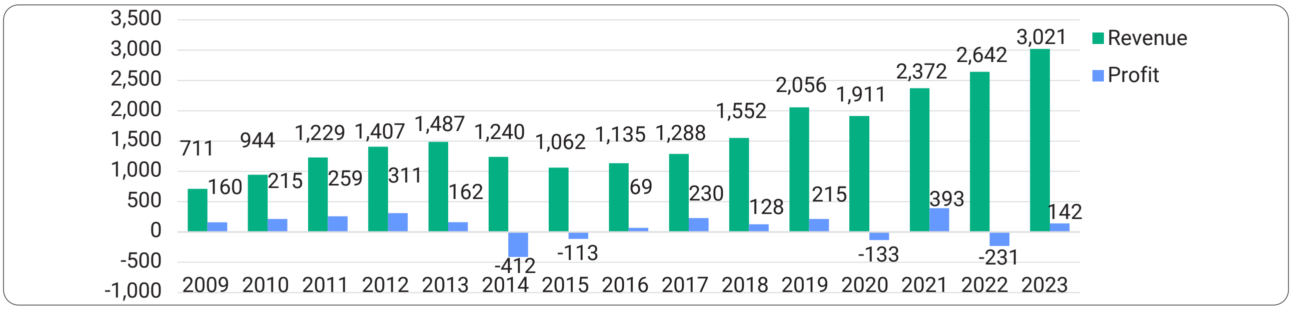

Figure 3. Revenue and profit of MHP from 2009 to 2023, USD million
Source: developed by the authors based on MHP reports (n.d.)

The figure demonstrates the instability of profitability against the backdrop of consistently rising revenues, which is influenced by economic crises and global events, such as war and pandemics. Following a period of steady growth from 2009 to 2013, the company faced sharp losses during the 2014 crisis. However, it gradually regained its position, showing positive results until 2019. The negative impact of the pandemic in 2020 and military events in 2022 led to significant losses; nevertheless, in 2023, the company exhibited signs of recovery, indicating stabilisation and a return to profitability.

For large companies with well-developed resources and global opportunities, the diversification strategy must be carefully considered in light of both current market conditions and long-term prospects. Horizontal diversification can be an effective strategy for companies that already possess strong positions in their primary market and seek to expand their product or service offerings. This approach allows companies to maximise their market share, reduce risks associated with dependence on a single product, and strengthen their competitive advantages. Vertical diversification can be beneficial for large corporations aiming to control all stages of production, from raw materials to end consumers. This control helps to lower costs, ensure quality management, and enhance business efficiency. Global corporations have the capacity to invest significant resources in supply chain and production management, enabling them to be more flexible in an unstable economic environment.

For medium-sized companies looking to expand their business, concentric diversification is a suitable strategy. This involves leveraging existing competencies and technologies to create new products or enter new markets related to the core activities of a company. Such an approach minimises risks by capitalising on established experience and knowledge. For instance, a company specialising in furniture manufacturing may expand its operations into adjacent segments, such as producing interior accessories or offering design services. However, medium-sized companies should avoid excessive concentration of resources by entering too many new markets simultaneously. Gradual development, utilising existing strengths and partnerships, is key to success. Furthermore, conducting thorough market analysis prior to launching new products is essential to ensure adequate demand and favourable conditions for growth.

Small companies should adopt a cautious diversification strategy due to their limited resources and capabilities. The best approach for them is adjacent or concentric diversification, allowing them to develop within a familiar domain while utilising existing skills and resources. A small business could, for example, offer new services or products to its current customer base, thereby minimising risks and maintaining stability. For small companies, it is also important to focus on innovation and specialisation. It is crucial for small enterprises to maintain financial flexibility, control costs, and avoid excessive investments in new areas that may be risky or fail to meet short-term expectations. In addition, it is important for small businesses to maintain financial flexibility, control costs, and avoid over-investing in new destinations that may be risky or fall short of expectations in the short term.

A strong corporate culture that fosters innovation, openness to change, and collaboration encourages active employee engagement in diversification processes. This, in turn, can enhance motivation and employee involvement, which is critical for the successful execution of new projects. When employees feel that their contributions are valued, they are more willing to embrace new ideas and solutions, positively impacting the company's adaptation to new market conditions and reducing the risks associated with diversification.

Discussion

Research on business diversification strategies highlights their importance in risk reduction, market expansion, and sustainable growth. The findings indicate several primary types of diversification, each with its unique characteristics, advantages, and risks. Horizontal diversification, the most common strategy, allows companies to leverage their existing resources to enter new markets swiftly. This is particularly significant for firms that already hold a strong market position. For instance, Apple's experience demonstrates how diversification can help maintain competitive advantages by introducing new products closely related to the core business. P. Arte & J. Larimo (2022) emphasised horizontal diversification as the most effective strategy during economic instability. They argued that this approach enables companies to respond quickly to changes in demand by using existing resources to launch new products. This conclusion aligns with the findings obtained, where it is also noted that horizontal diversification creates opportunities for faster market entry. However, it can be contended that this approach is not universally applicable, as in highly competitive markets, horizontal diversification may fail to deliver the desired results if the company lacks sufficient resources to support new initiatives.

Vertical diversification, on the other hand, allows companies to control more stages of the production process, thereby reducing dependence on suppliers and intermediaries. This is particularly relevant in the contemporary economic environment, where quality and cost control are of critical importance (Tiurina *et al*., 2023). For example, Tesla not only manufactures electric vehicles but also controls battery production, enabling the company to reduce costs and improve efficiency. A.W. Stevens & J. Teal (2024) investigated the risks of vertical diversification. They argue that this approach can lead to excessive managerial complexity, hindering a company's ability to respond swiftly to market changes. The authors emphasised the need for a balance between production control and flexibility, highlighting that excessive control may impede a company's ability to adapt. In this context, the present findings also acknowledge the risks associated with vertical diversification, though they focus more on quality control issues. This presents an opportunity for further research: does the importance of quality control truly outweigh the risks posed by managerial complexity, as suggested by the author.

Concentric diversification, which is based on leveraging existing competencies, reduces the risks associated with initial investments in new products. This underscores the importance of innovation, as companies must be prepared to adapt to changes in demand and implement new technologies. Samsung is a prime example of how a company can successfully apply its technological expertise to expand into new segments, such as home appliances. M.E. Widiana & D. Amartani (2019) examined concentric diversification, noting how it enables companies to remain within their areas of expertise. They cited examples of successful companies that expanded into new segments using existing technologies. This approach is reflected in the current findings, which emphasise the importance of concentric diversification for medium-sized enterprises. J. Sahni & A.S. Juhari (2019), on the other hand, focused on risk reduction, whereas the present study highlights the potential for innovation, creating a degree of dissonance in approaches to evaluating concentric diversification. On one hand, it is possible to agree with the authors that risk reduction is a critical aspect, particularly for companies with limited experience. However, the emphasis on innovation is equally important, as growth opportunities may outweigh the risks associated with new products if implemented thoughtfully.

Conglomerate diversification, involving entry into entirely new industries, is the riskiest strategy. While it may yield high returns, a lack of expertise in new sectors can lead to significant losses. General Electric is an example of a company that successfully diversified into various sectors but encountered challenges due to a lack of sufficient knowledge about the new markets it entered. L. Atieno & O. Sangoro (2023) consider conglomerate diversification the most hazardous but potentially rewarding strategy, particularly for companies with significant experience. They also provided an example of a company that successfully diversified into new industries but encountered financial difficulties. Current results also highlight the risks of conglomerate diversification. In line with the authors' conclusions, it is crucial to highlight the importance of successful experience in the execution of such a strategy. The current findings also stress this point, demonstrating similarities in the approach to risk assessment. It is also worth examining examples of companies that diversified without adequate expertise and subsequently failed.

Despite its numerous advantages, diversification has its drawbacks. Increased management complexity, resource dilution, and the risk of product cannibalisation can affect a company's success (Nogoibaeva *et al*., 2024). In particular, Kodak's attempt to diversify into digital technologies resulted in the loss of key competitive advantages due to insufficient attention to its core business. Issues related to vertical diversification also warrant discussion. Increased managerial complexity can reduce a company's flexibility in responding to rapid market changes. Companies must recognise that controlling all stages of production requires substantial investment in human resources and technology, as well as in-depth knowledge of new areas.

V. Jafari-Sadeghi *et al*. (2021) highlighted the role of technology in diversification strategies. They argue that companies implementing new technologies have a higher chance of success in diversification. P.A. Balland *et al*. (2019) also emphasised the importance of thorough market research before implementing any changes. Current findings underscore the importance of innovation, which aligns with their conclusions, but technological aspects are not as detailed as in the authors' works. Technological advancements can influence diversification strategies and impact a company's overall outcomes.

R.M. Lizares (2019) examined the impact of the external environment on diversification strategies. He emphasises that changes in political, economic, and social contexts can significantly affect the success of diversification strategies. The results also acknowledge the importance of external factors, although the current study is more focused on internal capabilities.

For large companies with well-developed resources and global reach, diversification strategies must account for both current and long-term market conditions (Ilchuk *et al*., 2023). Horizontal diversification can be an effective strategy for strengthening market positions, while vertical diversification enables cost reduction and increased quality control. For medium-sized companies, concentric diversification, which leverages existing technologies, is more appropriate (Kalchenko *et al*., 2018). Small enterprises should approach diversification cautiously, choosing strategies that allow them to maintain financial flexibility and avoid excessive investment in new, high-risk ventures. J.C. Alves *et al*. (2020) argued that small businesses should avoid risky diversification strategies and focus on strengthening their core products. They provided examples of small companies that failed due to aggressive diversification. Current results also recommend caution for small enterprises in pursuing diversification, supporting the authors' stance. However, the importance of financial flexibility should be emphasised alongside the risks. Companies need reserves to adapt to changes and should focus on safety and stability.

H. Guyader & L. Piscicelli (2019) examined the role of corporate culture in the context of diversification. They argue that companies with a strong corporate culture are more successful in implementing diversification strategies, as employees embrace change and adapt to new conditions more readily. The current findings do not place as much emphasis on the importance of corporate culture, though they touch upon employee motivation. There is a link between corporate culture and success in diversification, where cultural changes can either support or hinder the implementation of new strategies.

Different analytical approaches, such as focusing on risks, the importance of technology, the external environment, and corporate culture, allow for a more comprehensive understanding. The current findings, while noting both similarities and differences with the authors' views, emphasise the importance of diversification and the critical role of a company's internal capabilities in its success.

Conclusions

Diversification is an effective tool for reducing risks, expanding markets, and ensuring sustainable business growth. Diversification strategies enable companies to reduce their reliance on a single product or market, thereby increasing competitiveness and adaptability to market changes. Horizontal diversification allows firms to leverage existing resources and market channels, which is particularly beneficial for companies with a strong market position. Vertical diversification, as exemplified by Tesla, enables a company to control the entire production process, reducing dependence on suppliers and increasing business efficiency.

Concentric diversification offers the opportunity to expand based on existing competencies, reducing the risks compared to other forms of diversification. However, companies must be cautious to avoid over-reliance on current competencies, as this may limit opportunities for innovation. Conglomerate diversification, while holding the potential for high returns, is associated with uncertainty and risks due to a lack of experience in new industries.

The risks associated with each strategy have also been considered. For instance, excessive diversification may lead to a loss of focus on a company's core activities, and managing various businesses requires additional resources and expertise. However, for many companies, as demonstrated by the examples provided, well-executed diversification has been the key to sustainable development and enhancing innovation potential.

One of the key aspects of the study was the examination of companies actively employing diversification strategies to expand their businesses. Disney serves as a prime example of a company utilising horizontal, vertical, and conglomerate diversification. Initially focused on producing animated films, Disney has since evolved into a global media corporation encompassing film studios, theme parks, streaming platforms, and innovative technology projects. Tesla is another example of a company actively pursuing diversification, particularly vertical diversification. In addition to manufacturing electric vehicles, Tesla has expanded into battery production, autonomous driving technologies, and energy solutions. This strategy has enabled the company to reduce its reliance on external suppliers and establish itself as a leader in several innovative industries simultaneously.

MHP, a leading agribusiness company in Ukraine, demonstrates successful diversification within the agricultural sector. The company not only expanded its product range by producing various types of meat and ready-made products but also implemented vertical integration by controlling most stages of production – from growing grain for feed to meat processing. This approach has allowed MHP to improve efficiency, enhance competitiveness, and expand its presence in international markets. The study thus demonstrates that diversification is a key tool for reducing risks, increasing market share, and strengthening competitive advantages. Different diversification strategies can be effectively applied depending on the scale and nature of the business.

The limitations of the study include the insufficient volume of data on company diversification strategies and the potential impact of market changes on the analysis results. Future research could focus on comparing the effects of different diversification strategies on small and medium-sized enterprises and exploring new trends in diversification in the context of rapidly changing market environments.

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Conflict of Interest

None.

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Вплив диверсифікації на стратегічне управління підприємством

Катерина Бужимська
Кандидат економічних наук, доцент
Державний університет «Житомирська політехніка»
10005, вул. Чуднівська, 103, м. Житомир, Україна
https://orcid.org/0000-0002-4196-7993
Ірина Царук
Кандидат економічних наук, доцент
Державний університет «Житомирська політехніка»
10005, вул. Чуднівська, 103, м. Житомир, Україна
https://orcid.org/0000-0002-9628-3257
Світлана Бірюченко
Кандидат економічних наук, доцент
Державний університет «Житомирська політехніка»
10005, вул. Чуднівська, 103, м. Житомир, Україна
https://orcid.org/0000-0002-6340-8607
Ольга Пащенко
Кандидат економічних наук, доцент
Державний університет «Житомирська політехніка»
10005, вул. Чуднівська, 103, м. Житомир, Україна
https://orcid.org/0000-0002-5003-8977
Ігор Світлишин
Кандидат економічних наук, доцент
Державний університет «Житомирська політехніка»
10005, вул. Чуднівська, 103, м. Житомир, Україна
https://orcid.org/0000-0002-3177-7774

Анотація. Дане дослідження направлене на аналіз ролі диверсифікації як інструменту, що дозволяє підприємствам адаптуватися до змін у зовнішньому середовищі, зменшувати ризики та забезпечувати сталий розвиток. Розглянуто основні види диверсифікації: горизонтальну, вертикальну, концентричну та конгломератну. Кожен тип стратегії має свої особливості, переваги та ризики. Горизонтальна диверсифікація дозволяє компаніям розширювати асортимент продукції, використовуючи наявні ресурси й знання, що сприяє швидкому входженню в нові ринки. Вертикальна диверсифікація надає можливість контролювати ланцюг поставок або збуту продукції, що знижує залежність від зовнішніх партнерів і підвищує операційну ефективність. Концентрична диверсифікація допомагає компаніям розширювати бізнес на основі існуючих компетенцій та технологій, що мінімізує ризики. Конгломератна диверсифікація, хоча і є найбільш ризикованою, дозволяє підприємствам увійти в нові галузі, не пов'язані з основною діяльністю, що може значно збільшити прибутки. На прикладах таких компаній, як Disney, Tesla та «Миронівський Хлібопродукт» (МНР), показано успішне використання різних стратегій диверсифікації для досягнення провідних позицій на ринку. Tesla використовувала всі види диверсифікації, контролюючи всі етапи виробництва своїх електромобілів і навіть створюючи інфраструктуру для зарядних станцій. Disney також реалізував диверсифікацію, поширюючи свою присутність через придбання студій і розвиток розважальних парків, а також запроваджуючи стримінгові сервіси. МНР демонстрував приклади диверсифікації, контролюючи весь ланцюг виробництва від сировини до готової продукції, водночас розширюючи асортимент м'ясної продукції. У висновках підкреслюється важливість обережного і виваженого підходу до вибору стратегії диверсифікації, враховуючи доступні ресурси, ринкові можливості та особливості бізнесу. Успішне впровадження диверсифікаційної стратегії дозволяє компаніям не лише знизити ризики, але й суттєво зміцнити свої позиції в умовах мінливої економічної ситуації та конкурентного тиску

Ключові слова: бізнес-стратегії; ризик-менеджмент; розширення ринків; фінансові результати; конкурентоспроможність