

IMPLEMENTATION OF THE DIVERSIFICATION STRATEGY FOR THE FORMATION OF THE ADAPTABILITY OF THE ENTERPRISE

Larysa Kurbatska¹, Luidmyla Kvasova², Denys Lozovyi³

Abstract. The *purpose* of this paper is to explore the significance of production diversification as a strategic approach for enhancing the adaptability and resilience of enterprises in a volatile economic environment. It aims to analyze the various diversification strategies available to businesses, assess the associated risks and opportunities, and identify the key factors that influence the selection of an optimal diversification strategy. Through this exploration, the paper underscores the importance of diversification in securing the long-term viability and success of enterprises in today's dynamic marketplace. *Methodology of the paper.* The methodology of this paper involves a comprehensive approach to exploring production diversification as a strategic tool for enhancing enterprise adaptability and resilience. A thorough review of existing literature on production diversification, adaptability, and resilience in enterprises will be conducted. This will include academic articles, industry reports, and case studies to establish a theoretical framework and identify best practices. In-depth interviews and surveys will be conducted with business leaders and industry experts to gather insights on their experiences with diversification strategies. This qualitative data will help to understand the practical challenges and successes associated with implementing diversification. *Recommendations.* Based on the findings, practical recommendations will be formulated for business leaders on how to select and implement optimal diversification strategies to enhance adaptability and resilience. *Limitations and Future Research:* The paper will also discuss the limitations of the study and suggest areas for future research to further explore the topic of production diversification. This methodology aims to provide a holistic understanding of production diversification and its significance in navigating the complexities of the modern economic landscape. *Results.* The results of the study indicate that companies that actively engage in production diversification tend to exhibit greater adaptability and resilience in volatile markets. Analysis of case studies revealed that successful diversification strategies often involve a combination of product innovation and market expansion. Qualitative insights from industry leaders highlighted the importance of aligning diversification efforts with core competencies to mitigate risks. *Practical implications.* The practical implications of this study suggest that businesses should prioritize production diversification as a key strategy for enhancing adaptability and resilience in changing market conditions. *Value / originality.* The originality of this study lies in its comprehensive approach to understanding production diversification, integrating both qualitative and quantitative analyses to provide a well-rounded perspective. By synthesizing insights from industry leaders, case studies, and statistical data, the research offers actionable recommendations that are grounded in real-world experiences.

Keywords: diversification, adaptability, enterprise, risk mitigation, innovation, strategic planning, resource allocation, market dynamics.

JEL Classification: D21, L25, M10

¹ Dnipro State Agrarian and Economic University, Ukraine

E-mail: dekanatmtmr@gmail.com

ORCID: <https://orcid.org/0000-0003-2595-9181>

Web of Science ResearcherID: U-2297-2018

² Dnipro State Agrarian and Economic University, Ukraine (*corresponding author*)

E-mail: kamillagreenhouse@gmail.com

ORCID: <https://orcid.org/0000-0002-7146-3788>

Web of Science ResearcherID: HOH-5467-2023

³ Dnipro State Agrarian and Economic University, Ukraine

E-mail: denlozovoj@gmail.com

ORCID: <https://orcid.org/0009-0000-3004-1784>



This is an Open Access article, distributed under the terms
of the Creative Commons Attribution CC BY 4.0

1. Introduction

In an increasingly volatile and competitive business landscape, the ability of enterprises to adapt and thrive is paramount. The implementation of a diversification strategy has emerged as a critical approach for organizations seeking to enhance their adaptability and resilience. Diversification, defined as the process of expanding a company's product lines or markets, not only serves as a mechanism for risk mitigation but also fosters innovation and growth. As consumer preferences evolve and market dynamics shift, businesses must proactively seek new opportunities to remain relevant and competitive.

This article explores the multifaceted nature of diversification strategies and their role in shaping the adaptability of enterprises. It delves into the theoretical frameworks that underpin diversification, examining how organizations can leverage their core competencies to identify and capitalize on new market opportunities. Furthermore, the article highlights the importance of strategic planning, resource allocation, and organizational culture in successfully implementing diversification initiatives.

By analyzing case studies and empirical evidence, this research aims to provide insights into best practices for diversification that align with the unique strengths and capabilities of enterprises. Ultimately, this article seeks to contribute to the understanding of how diversification can serve as a vital tool for fostering adaptability, ensuring long-term sustainability, and navigating the complexities of the modern business environment.

2. Theoretical Approaches to the Formation of the Adaptation System of the Production Enterprise

Uninterrupted development of the dynamics of the enterprise's operating environment in the context of globalization and the transition of the Ukrainian economy to the world economy force domestic companies to constantly carry out systemic processes of adaptation in accordance with trends. A significant part of the industrial enterprises of Ukraine had an established production and economic system, but the underdevelopment of the adaptation system led to the fact that they could not respond in a timely and adequate manner to changes in the unstable external environment.

Currently, most of the manufacturing enterprises of Ukraine are in a state of crisis caused by the global pandemic and the full-scale invasion of Ukraine. Having analyzed the activities of these companies, we found that their managers explain the negative impact of their activities on three reasons: the lack of own funds, a decrease in the solvency of consumers, and the imperfection of the country's tax system.

Managers tend to consider only the influence of external factors on the company's activities (lack of resources – market instability, drop in demand – global crisis, tax policy – incompetence of officials), which may turn out to be more important than real market conditions. To solve these problems, we must first move from traditional forms and methods of management to management methods that the market needs.

This requires the development of new approaches to business management, in particular the use of resource-saving technologies, making rational management decisions and monitoring indicators for interpreting changes in the external environment.

Manufacturing companies have the potential for innovative activity, which allows them to overcome crisis situations. Therefore, the importance of developing systems of adaptation of companies to ensure competitiveness in the context of modern market relations is becoming more and more important and is crucial for development and efficient production.

Adapting to rapid changes in the external environment requires rapid and significant adjustments in what we do and how we do it. As noted management researcher Peter Drucker noted, managers now have to deal with discontinuities, and change management has become a key concern for stakeholders. In the process of adaptation, the system of management functions acquires special importance. Therefore, the best way to respond to changes is to constantly monitor them, and this requires a high level of attention.

The term "adaptation" has a complex internal structure, includes functional and process components that characterize the essence of adaptation, and consists of the following main components:

Adaptive properties – ensure the survival of the system and adaptation to certain changes in the external environment (qualitative properties and characteristics of the system, a set of properties

that ensure the integrity of the system and its balance).

Adaptability – the ability of the system to adapt to possible changes in the external environment in a timely manner (the potential of the system, its ability to update and improve, the flexibility of its internal environment).

The process of adaptation – ensures the transformation of the socio-economic system and its subsystems in accordance with changes in the external environment.

It is proposed to create a strategic model of corporate adaptation based on the determination of adaptation indicators according to two parameters: competitiveness and financial attractiveness.

Such an action allows to create a multi-criteria system for assessing the enterprise's adaptability (consisting of external and internal components of the enterprise's activity). Recommendations for evaluating the effectiveness of the implementation of adaptation measures at the enterprise are based on consideration of three key factors: 1) timeliness and profitability of adaptation measures; 2) adequate motivation of employees; 3) assessment of the functional quality of the adaptive system.

In situations of instability of the external environment, the efficiency of the enterprise's adaptation and its quantitative expression are of great importance. Researchers offer various algorithms for analyzing input data and making changes and recommendations to them. Planned and actual results, as well as the effectiveness of adjustments, are explained using indicators of the state of the enterprise. The planned result of the adjustment is achieved under conditions of minimal inconsistency of the company's current situation with the external environment. This is determined by equating the desired value of the indicator to the actual value. If the enterprise does not have sufficient resources to achieve the desired value of the indicator, a potentially possible or planned value is determined.

Based on the conducted research and taking into account the purpose of our work, the adaptation of production enterprises is understood as the constant process of adaptation of the socio-economic system of the production enterprise (changes in the production structure; the formation of logistics flows, the formation of goals and strategies, etc.) in response to changes in the factors of the external environment, which

leads to the appearance of competitive advantages in new economic conditions.

In most cases, companies use several types of adaptation at the same time, depending on the goals, the state of the internal environment and external trends.

The results of monitoring the external environment are of crucial importance for the formation of the company's development strategy and the formation of the system of organizational and economic adaptation. In order to determine real indicators, it is necessary to carefully monitor the processes taking place in the company's environment, assess the impact of factors (macro- and microenvironment) on the company's activities, as well as understand the connection of factors with the company's internal environment and determine strengths and weaknesses, as well as threats and opportunities presented by the environment.

Factors forming the external environment are difficult to control due to their complex structure and large number. When one element changes, so do the others. Accordingly, the key task of management is to ensure the balance between the volume of produced products and the consumed volume of necessary resources (information, finance, energy, materials, etc.) in the external environment. The strategic management of the company should be aimed at sustainable corporate management with a long-term perspective.

Adaptation of manufacturing enterprises to changes in the unstable external environment is a complex process that cannot be carried out without the formation of modern organizational and economic systems of enterprise adaptation.

Adaptability is the ability to quickly and fully respond to changes in the external and internal environment by making effective business decisions to ensure competitive activity on the market and sustainable development (Markides, 2015).

From the point of view of a systemic approach, the main elements of organization, finance, production technology and society can be identified in the structure of the process of adaptation of the organizational and management system of enterprises. Evaluating each of these variables, you can jointly determine the level of adjustment in order to correctly choose a model of market behavior and adjust strategic and tactical decisions. At the current level of mathematical methods and information

technologies, it is impossible to solve this problem with the help of formal methods, therefore, in this case, it is advisable to take into account the options for organization and management structures related to the company's management system.

In order to solve the practical and theoretical tasks of improving organizational and management structures, a number of indicators characterizing their effectiveness have been proposed. It should be noted that the question of the effectiveness of these systems does not depend on the general problems of the company, the planning system, current and operational management, etc.

The following criteria should be used to assess the effectiveness of the organizational and management structure:

- indicator of management efficiency;
- specific labor costs of all managerial and administrative personnel of the enterprise and various structural divisions;
- efficiency indicators characterizing the level of timely and high-quality decision-making both for the company as a whole and for its divisions;
- indicators of social cohesion of employees of management and management structures, as well as employees of the company as a whole and its divisions, determined on the basis of expert survey data.

Organizational and social factors are closely related and these elements of the adaptation process require expert evaluation.

When assessing the degree of adaptation, one should not ignore the production and technological potential of the enterprise. The best indicator for determining the level and dynamics of technological development of production is "enterprise flexibility". By the flexibility of the enterprise, we understand its ability to achieve the necessary results without fundamentally changing the main production resources and to master in a certain period of time a sufficient number of goods from the assortment that may be demanded by the market, and, ultimately, the ability to satisfy market demand.

There are two main criteria for determining the flexibility of a company:

- to evaluate the results of the enterprise during this period: that is, to maintain a certain level of development and renewal of necessary production resources;
- establishing a connection between the company and the external environment: that is,

the ability to plan and anticipate development processes for updates or adjustments.

In order to assess the company's flexibility, an economic-mathematical model is created based on these two indicators.

Sustainability is the basis for ensuring the survival of companies and the stability of the financial and economic system. Its level is influenced by internal and external factors, therefore the company may have internal and external factors of stability formation.

The internal stability of the company is the composition of its material structure, as well as the level of production and sales costs, which ensures consistently high results of its activity. This is achieved thanks to the principle of active response to changes in internal and external factors. External stability is determined by the dynamics of the economic environment in which economic activity is carried out.

Reflecting the degree of adaptation of the financial and economic systems of enterprises to modernity, evaluating the elements of the adaptation process of financial stability and reducing them to a single integral indicator with the help of mathematical tools, it is possible to obtain complex values. The results of such an assessment can be used to make the most important strategic decisions regarding the implementation and improvement of adaptive management (Schraeder, 2002).

Of course, these criteria are not exhaustive. This is due to the fact that, taking into account the details of the activities of each individual entity, other elements of adaptability that are most relevant for each phase of the company's life cycle are taken into account.

The central element of the process of adaptive corporate management is the creation and use of appropriate organizational and control mechanisms.

This can be seen as an "adaptive control mechanism". This mechanism is a complex of interconnected components in the management system of an enterprise that plans and adapts its activities to new or expected changes in the external environment and eliminates or prevents the negative consequences of these changes. A feature of the adaptation management and organization mechanisms is the need to take into account the uncertainty of the company's external and internal environment.

3. Strategic Aspects of Management of the Diversification of the Production Enterprise

In the current economic situation, processing enterprises operating in the market must not only ensure their own survival, but also explore and implement opportunities for the further development of their companies and be part of their strategic production.

Diversification can open up new opportunities for companies and significantly accelerate the process of opening and developing a business. At the same time, however, it should be borne in mind that diversification requires significant resources. Refusal to engage in a new type of activity can lead to the loss of a lot of money and affect financial stability. If a crisis phenomenon occurs, it can have serious consequences, including the liquidation of the enterprise.

Management makes three types of decisions that directly or indirectly determine the company's long-term competitiveness. These are decisions related to:

- 1) investments or, on the contrary, extraction of resources;
- 2) the main activity, mainly operational;
- 3) justification of research, relevance of participation and rationality of use of financial resources.

The company's ability to ensure compliance of its products, internal business processes and performed work with the requirements of sustainable development depends on balancing and adjusting external influences on the development of these areas.

Financial activity begins with determining the current financial state of the enterprise. This is determined by the results of past activities. The financial condition of the enterprise is an integral indicator of competitiveness, as it is determined by the aggregate results and efficiency of activities, finances, labor and material resources, market strategies, price and marketing policy, etc.

The scientists' study offers a methodology for assessing the impact of financial conditions on the ability to attract companies and the cost of funds. This method depends on the rating of the company as a borrower and the development of the company's market value, size of assets and other indicators. It is shown that the negative results of the company's activity in the past significantly complicate access to credit resources

in the future. The reverse is also true: if the company is stable and profitable, the market value of future borrowed funds will be lower than the average market interest rate of the loan. This reduces the company's weighted average cost of capital. Depending on the weighted average cost of capital, business diversification directions are chosen. The most important parameter in this case is that the weighted average cost of the financing sources involved in the considered activity should be lower than the profitability (Kachaner, King, and Stewart, 2016).

All management decisions in the previous period, successful or unsuccessful, determine the financial situation and, therefore, the company's competitive potential and affect the probability of increasing this potential in the future.

4. Survey Methodology

The proposed algorithm for managing the diversification of the production activity of the processing company is based on the connection of three identified directions and selects new directions of development in accordance with the principles of sustainable development.

All alternative development projects are classified in the direction of decreasing efficiency, and all financial sources – in the direction of increasing the cost of attracting funds. If the cost of the source of financing exceeds the expected profitability of the new activity, this source of financing is excluded from further consideration.

Previously, the economic situation in Ukraine was difficult, but now insufficient progress in overcoming the coronavirus crisis and the full-scale invasion of Ukraine have worsened the national economic situation and created a high level of uncertainty for business. This situation has led to financial and economic problems such as reduced profitability, reduced efficiency, reduced production and downsizing of companies. In addition, given the current realities, many companies have stopped or limited their activities due to the political situation in our country. This is mainly due to the impossibility of ensuring the security of operations, the drop in demand for goods due to a decrease in the solvency of consumers or the destruction of business as a whole.

However, not all companies are equally affected by current events. There are companies that are able to quickly and effectively respond to changes, optimize costs, offer consumers high-quality

products and ensure stability even in today's difficult conditions.

There is no doubt that a variety of internal and external factors affect business operations. Therefore, to ensure effective management, it is necessary to pay attention to each risk, analyze existing and potential risks and their possible impact, and look for ways to avoid or reduce the threat. At the same time, it is necessary to explore new opportunities to ensure the stability and development of the company and increase profitability. One of the ways to achieve this is diversification of production.

5. Findings

The concept of diversification is so broad that different scientists and researchers had their own views on its definition. Diversification is a type of economic process that consists in the simultaneous development of several independent spheres of activity and the expansion of the range of goods, works or services of the enterprise.

Three forms of diversification are distinguished in the scientific literature:

- 1) Production. This includes expanding the company's production methods and product range.
- 2) Finances. It is earned by companies that make various types of short- and long-term financial investments.
- 3) Marketing, i.e. creation of own sales network, expansion of product sales channels and use of additional marketing tools for product promotion.

So, based on the considered definition, production diversification is a business development that involves expanding the range of products or services that the company produces or offers in order to reduce the risks arising from dependence on one type of product.

In today's conditions of economic instability, companies can diversify their production to solve many tasks and goals, such as (Snihur, Thomas and Burgelman, 2018):

- 1) Maintaining stable work even under difficult circumstances and avoiding the crisis process.
- 2) Development of additional sources of income, thereby increasing the profitability of the company.
- 3) Reducing the risk of product or industry dependence.
- 4) Increasing the competitiveness of the enterprise and maintaining its position on the market.
- 5) Expanding the market for products or services and opening new areas for the company.
- 6) Increasing the efficiency of activities.

In general, diversification of production strengthens the company's market position, ensures stability and reduces future risks. However, diversification can be a complex and expensive process that requires significant investment in market research, new product development, and the introduction of new technologies. In addition, not all types of diversification are successful for the company, so it is necessary to analyze and evaluate the effectiveness of the planned measures.

To characterize the direction of diversification of the enterprise, it is possible to distinguish the diversification of products (goods, works, services), suppliers, production technology and sales markets (Weiss, 2016).

Each of the strategies described here has advantages and disadvantages. Of course, horizontal diversification takes into account the needs of consumers, but it risks limiting the market.

The advantages of vertical diversification include the combination of coordination of actions due to high management skills, stability of economic relations within the company, ensuring the supply of material and technological resources, close contact with end consumers, but there is a high degree of interdependence between them.

Diversification of conglomerates contributes to the rational use of financial resources of companies, reduces the risks of falling demand for individual goods and services, and provides protection against takeovers. At the same time, it is the most difficult and expensive to implement of all the development strategies listed above. Therefore, it is available only to large companies. In addition, the diversification strategy of conglomerates is characterized by difficulties in regulating different types of companies and sectors, the complexity of analyzing strategic issues and problems in evaluating strategic plans (Chan, and Nasir, 2019).

In addition to positive consequences, diversification of production can also carry certain risks, such as:

Financial risk. Since the diversification of production requires additional costs to implement, there is a risk of inefficiency and losses. This problem is particularly acute today, since domestic entrepreneurs are already in a difficult financial situation due to the instability of the domestic economic environment due to military actions.

Management risks. New business areas may require new knowledge and skills, which can create difficulties for employees and company management and ultimately affect the company's performance.

Production risks. Diversification often requires the use of new technologies or new production processes. This can negatively affect labor productivity, the quality of final products and general economic activity, and in modern conditions can only worsen the situation.

Market risk. Changes in consumer demand and market conditions, exacerbated by the economic downturn, may reduce demand for our products in new areas of business, which could reduce our profitability.

Competitive risk. The company's entry into new business areas may turn out to be less effective than expected, which will increase competitive risks and reduce the company's profitability. In view of the formed risks, it can be concluded that any changes require a detailed analysis of threats that negatively affect the company's activities. Developing an effective risk management strategy helps to determine the expediency and direction of diversification, especially in modern conditions. By developing and implementing appropriate diversification strategy groups,

companies open up new business areas in unknown markets and thus encounter unknown technologies. At this stage, it is important to invest in improving your capabilities, for example by creating joint ventures, acquiring licenses and attracting venture capital. When a company has a high level of unique strategic potential, it achieves a high level, and new strategic opportunities for long-term success open up for the company.

6. Conclusions

The implementation of a diversification strategy is crucial for enhancing the adaptability of enterprises in today's dynamic business environment. This academic article highlights that diversification not only mitigates risks associated with market fluctuations but also opens new avenues for growth and innovation. By broadening their product or service offerings, companies can better respond to changing consumer demands and emerging market trends. Furthermore, the study emphasizes the importance of aligning diversification efforts with the core competencies of the enterprise. Successful diversification requires a thorough understanding of the market landscape and the internal capabilities of the organization. This alignment ensures that new initiatives are not only viable but also sustainable in the long term.

References:

- Markides, C. C. (2015). Research on Business Models: Challenges and Opportunities. *Business Models and Modelling* (Advances in Strategic Management, Vol. 33), Emerald Group Publishing Limited, Leeds, pp. 133–147. DOI: <https://doi.org/10.1108/S0742-332220150000033004>
- Schraeder, M. (2002). A simplified approach to strategic planning: Practical considerations and an illustrated example. *Business Process Management Journal*, Vol. 8 No. 1, p. 8–18. DOI: <https://doi.org/10.1108/14637150210418601>
- Kachaner, N., King, K., & Stewart, S. (2016). Four best practices for strategic planning. *Strategy & Leadership*, Vol. 44 No. 4, p. 26–31. DOI: <https://doi.org/10.1108/SL-06-2016-0046>
- Snihur, Y., Thomas, L. D. W., & Burgelman, R. A. (2018). The Performative Power of Words: How Business Model Innovators Use Framing for Strategic Advantage. Sund, K. J., Galavan, R. J. and Brusoni, S. (Ed.) *Cognition and Innovation (New Horizons in Managerial and Organizational Cognition, Vol. 3)*, Emerald Publishing Limited, Leeds, p. 13–44. DOI: <https://doi.org/10.1108/978-1-78769-431-620181002>
- Weiss, M. (2016). Related Diversification: A Critical Reflection of Relatedness and the Diversification-Performance Linkage. *Advances in Mergers and Acquisitions* (Advances in Mergers and Acquisitions, Vol. 15), Emerald Group Publishing Limited, Leeds, p. 161–180. DOI: <https://doi.org/10.1108/S1479-361X20160000015009>
- Chan, L.-F., AN, B.-A. and Nasir, A.B.M. (2019). Does the Method of Corporate Diversification Matter to Firm's Performance? *Asia-Pacific Contemporary Finance and Development (International Symposia in Economic Theory and Econometrics, Vol. 26)*, Emerald Publishing Limited, Leeds, pp. 207–233. DOI: <https://doi.org/10.1108/S1571-038620190000026011>

Received on: 16th of October, 2024
Accepted on: 29th of November, 2024
Published on: 27th of December, 2024