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**Khalid S. Soliman**

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## The Role of Diversification in Different Countries of the World and Their Impact on the Economy

Doszhan Raigul, Phd, al-Farabi Kazakh National University, Almaty, Kazakhstan, rdd2011@mail.ru

Akybayeva Gulvira, Phd, Y.Buketov Karaganda State University, Karaganda, Kazakhstan, akubaeva\_g@mail.ru

Mutaliyeva Lyailya, Phd, L. Gumilyov Eurasian National University, Astana, Kazakhstan, mutaliyeva\_lyaila@mail.ru

Khamitov Dariga, Phd, Pavlodar State Pedagogical Institut, Pavlodar, Kazakhstan, kh.dariga@mail.ru

### Abstract

Diversification of production, like any other planned economic process, has its own system of goals and objectives. In modern conditions of development of market relations, all these groups of goals are subordinated to the strategic economic goal of the state - achieving sustainable development of the country, joining the country among the 50 most competitive countries of the world by diversifying the branches of the economy and departing from the raw direction of development.

### Introduction

The scale of diversification varies from country to country, and its development is uneven, spasmodic, due to uneven economic and political development, historical and cultural characteristics. The specifics of diversification are colored by country specific characteristics, but at the same time, some common factors that affect it are related to all countries: the scientific and technological revolution, the continuous struggle for high profits, the need to find new spheres for the application of their savings, the militarization of the economy, the growing international competition, fear of falling behind technical progress.

Consider the development and features of the process in some industrialized countries.

The issues of diversification became the research subject of foreign economic science from the 60s of the 20th century, when tendencies towards diversification of production activities of large industrial companies began to manifest themselves. Having experienced five waves of mergers and acquisitions since the beginning of the 20th century, the world economy at the end of the second millennium came to a new milestone, which was marked by the appearance of super-giants in the economic arena.

The basic principles for the development of large companies in the 1980s - economy, flexibility and maneuverability, were supplemented in the second half of the 1990s with a strong focus on expansion and growth. Large companies seek to find additional sources of expansion of their activities, among which one of the most popular mergers and acquisitions of companies. Moreover, the desire of companies to enlarge and expand the spheres and scope of activity is as natural as the desire of any living organism to survive (Nemchenko G.I.).

Many companies that made a bid for expansion or diversification inevitably faced the question of how to win new markets. From two alternatives: to develop own manufacture or to buy / merge with already operating enterprise - many have gone on the second way. However, the advantages in the speed of entering the market and acquiring the know-how in a specific field (in a specific market) are supplemented by the numerous risks associated with this alternative.

No secret that  $\frac{2}{3}$  mergers and acquisitions are ultimately unprofitable and lead to the sale of previously acquired companies, and even to the closure of their own business. Therefore, when

carrying out such transactions, it is necessary to pay special attention to the evaluation of the potential benefits that the initiating company can receive in case of successful conduct.

### The Main Results of the Study

Evaluation of the total effect of the transaction is also necessary to calculate the critical, that is, the maximum premium that the initiating company of the absorbed company is willing to pay. Moreover, the incorrectly calculated value of the premium, often a priori doomed the newly formed company to failure (Nemchenko G.I. 1994).

Mergers and acquisitions of companies throughout history have been undulating. Particularly distinct waves can be observed throughout the 20th century. On the basis of analytical data, we can distinguish five most pronounced waves in the development of these processes, each of which has its own peculiarities:

- the period of the first mergers in 1897-1904;
- continuation of the period of mergers in 1916-1929;
- "conglomerate" wave in the late 1960s - early and mid-1970s;
- a new period of diversification in the 1980s;
- the merger of companies in the second half of the 1990s - the beginning of the 21st century.

Details of the development of the processes of diversification can be considered in detail in the countries of the United States, Japan, France, South Korea.

USA. The US economy is characterized by a high level of capital concentration and its peak, it reached in the 50s. The emergence of large monopolies in the main sectors of the economy led to significant changes in the mechanism of not only intra-industry, but also cross-sectoral competition. Large corporations own a variety of enterprises in various sectors, in trade, transport, credit, and have a system of various relationships with other companies. Restructuring, connected with the influence of scientific and technological revolution and aggravation of competition, encompassed the control of monopolies over the system of connections between sectors and spheres of the economy.

In the United States, an expanded system of diversification goals, primarily on ways to accelerate the pace of STP, technological re-equipment and progressive change in the structure of production, was given as part of the transition to strategic management. In the 60s, when strategic planning began to enter into practice, its main subject was the diversification of American firms. In 1950, in the United States, specialized companies - single-product and with a dominant product - comprised  $\frac{1}{2}$  all companies, and in the next 20 years (by 1970) their number dropped to about  $\frac{1}{5}$  (Gertner R., Powers E., Scharfstein D. 2002).

Due to the fact that the growth could not be unlimited, as the saturation of demand, the decline in prices did not give a proportional increase in profits on investment, specialized companies, for example, engaged in the production of automotive parts, while the largest, with turnover of several hundred million dollars, penetrated into other industries under pressure of unbearable competition for them. In an effort to ease their dependence on the production of one particular product or one company and, at the same time, stay on the surface, they switched to the production of parts for aviation and electrical companies, as well as military equipment. The company "Bendix" with assets of 370 million dollars. (1957) and turnover of 71 million dollars, eventually turned into a military concern: military production accounted for 69% of its sales (1956). The company "Borg Warner" (in 1957 its assets amounted to 416 million dollars, and sales - 609 million dollars) managed to reduce the percentage of automobile parts in its turnover from 60% in 1950 to one third in 1956-1957. In 1946-1956, Borg Warner absorbed approximately 15-16 companies manufacturing oil equipment, plastics, air conditioning equipment, lifts, refrigerators, washing machines, power tools, aviation and electronic components. Military production accounted for one-fifth of its turnover.

In the 1960s and 1970s, many monopolies acquired a multi-sectoral nature, carrying out diversification of entrepreneurial activities. If in 1950 the number of single-industry companies in the list of 500 US industrial leaders was 30%, by the end of the 1970s only 6% of them remained. Currently, single-industry companies in the "club 500" are almost gone, and the majority operates in dozens of industries (DeLoof M. 1998).

A distinctive feature of diversified companies is their multi-product nature. Excessive capital finds profitable use due to not only the use of waste, the interconnection of semi-finished products, but also the multipurpose use of the same raw materials, equipment, labor, technology, management apparatus and channels for the sale of goods, relative savings of fixed and variable capital. Along with this, the scientific and technological revolution greatly expanded the universality of technology and increased the flexibility of technology, opened up a variety of new applications for machines and equipment. An important role in the development of diversification was played by the state policy on the weakening of the restrictions created by the regulation of the activity of big business. Antitrust legislation restricting the process of intra-industry monopolization has practically not hampered inter-industry expansion.

However, in the second half of the 1980s, diversification was combined with a deepening of the specialization of corporations. After the next wave of diversification, the industry set of transactions went beyond profitability. The huge, widely diversified American monopoly leaders could not quickly adapt to the new conditions of reproduction due to the increasing competition from Japanese and Western European goods.

Therefore, in an effort to improve the technical level of production, monopolies get rid of activities that are far from the main profile. For example, the chemical monopolies Union Carbide and Dow Chemical sold all the divisions not related to the main specialization. In return, companies were acquired that provided advanced scientific, technical and technological transformation of the main productions. Automotive, electronic, machine-building and other corporations also behave. As a rule, capital is invested in knowledge-intensive progressive types of industries that provide technical reconstruction of the main business. "General Motors" acquired a company engaged in the development of "artificial intelligence". This was done not in the name of diversified expansion, but in the framework of the creation in the 90 years of a fundamentally new car. In these conditions, the most important aspects of the strategy of modern US monopolies are the search for the optimal size of individual enterprises and their combination within the company.

A feature of the development of diversification, in this period, is not its objective basis, but the capacity building of large corporations through mergers and acquisitions.

This process went through several stages in its development and reached the highest level by the end of the 1980s. A distinctive feature of the new, fourth wave of mergers of the early 1980s is the growth of the total value and average volume of corporate transactions. If in 1979 there were 2128 transactions amounting to \$ 16 billion, then in 1980 - 1189 transactions amounting to \$ 44.3 billion. Unprecedented in this regard was 1981, which was characterized by a record number of mergers that covered almost all industries economy. US companies spent 82.6 billion dollars. for the purchase of 2395 firms. The number of mergers and acquisitions significantly increased in 1983: 2,533 deals were made, the value of which was estimated at \$ 73.1 billion. The new wave of mergers is characterized by the expansion of giant transactions in size: in 1981, the amount involved in the 50 largest transactions was 49.9 billion dollars, and in 1982 - 48.2 billion dollars, in 1983 - 38.4 billion dollars. In the 80 years, the fever of mergers acquired the character of an epidemic (Gertner R., Scharfstein D., Stein J. 1994).

For many companies with significant liquidity, acquisitions seemed to be the most profitable way to expand the scope of capital investment, because in a downturn, firms were afraid to invest in new construction. The diversification nature of mergers and acquisitions can be explained by various reasons.

Although Japanese firms are less diversified than Western European and American firms (one principle applies - one company), they extend their control to many industries and activities through grouping of companies.

Japanese corporations had a great influence on the development of most of the newly industrialized countries, both as an example of the emergence of a powerful corporate structure, and directly participating in their economic life. The experience of Japanese corporations to date has become the basis for rethinking the fundamental issues relating to the optimal organization of economic turnover in any country, in any economy (Toyohiro Kono, 1987).

France has traditionally been characterized by low concentration of production and high capital. Therefore, the most important feature of the studied process in France is that there is a diversification of capital - a growing merger of bank capital with the industrial one. Banks are involved in the activities of industrial companies, connecting enterprises in a single organism. Industrial capital is transformed into financial means by creating holding companies, investment funds, regional development companies and so on, separating its lending activities from the activities of traditional banking partners. The organizational form of the existence of financial capital in France is the financial group - a qualitatively new form of capital monopolization. A financial group is a set of industrial, banking, trade monopolies, scientific and production units united by strategic management and control. Internal links in the financial group are built on the exercise of control while preserving the economic independence of its constituent corporations.

In the financial group, financial capital is reproduced on the basis of all its forms - monetary, industrial and commodity. Financial groups, being a product of financial capital, represent a phenomenon related to a higher level of socialization, and, as a rule, are built "from above," that is, from banks to industry and trade.

Modern features of financial groups are their universality and diversification, coverage in an equal degree and industrial, and banking, a large organizational design and a variety of transnational connections. Management of financial groups is carried out through holding companies and cross-corporate ownership of shares.

The entire French economy is covered by four financial groups: Paribas, Soyuz, the Rothschilds and Ampen-Schneider groups.

South Korea. For South Korea, as there can be for every other country, there is a high degree of concentration of production and capital, monopolization by several large corporations of almost all branches of the economy. Virtually all large and medium-sized enterprises belong to various corporations, of which there are already several dozens ("Samsung", "Daewoo", "LG", "Hyundai" and so on). The largest of them ("cheboli" or "teabolls" - the Korean version of the name) are in many respects similar to the leading corporations in Japan (hereon). The differences are related to the fact that Korean corporations are based on family capital.

While the model formed by post-war Japan implements the import-substituting variant of industrial development with strict state control over the external economic sphere and with financial self-sufficiency of the investment process, the model chosen by South Korea initially targets an export-oriented path of development with a widely open economy and support on foreign credit assistance. A distinctive feature of this path is that the economic recovery is taking place in conditions of a controlled but steady rise in prices. However, the accelerated development takes place according to the same reproduced scheme, according to a certain laid common program (Goergen M., Renneboog I, 2004).

Practically in all countries, with the diversification of the structure of the economy, governments have chosen the priority sectors in which investments were directed. Priority industries were given tax and other benefits. Diversification of the structure of the economy was carried out in accordance with the plans and programs developed by the governments. In a number of countries, the policy of

consultations with business was actively applied. In the new century, the growth rates of world exports exceeded economic growth almost in every part of the world. The ratio of exports to GDP increased in China as well. Nevertheless, the country withstood the 2009 global crisis in world trade relatively easily. It should be reminded that in 1997 the ratio of China's foreign trade to the country's GDP was 42% (converted at foreign exchange) and slightly decreased in the next two years. In 2008, the same indicator was 57%, while the export quota was equal to almost 30%. It can be concluded that China's economy is even less dependent on foreign trade than it was observed in the years of the Asian financial crisis. Obviously, this is attributable to a new dimension of the economy: investment and consumer demand inside the country is gradually becoming the main driving force of development, including as a result of the adequate anti-crisis measures. Thus, the so called «export quota» appeared to be misleading (insufficient) (Ziyadin S., 2017).

In the foreign economic sphere, especially at the first stages of diversification, protectionism policies were applied in many countries, including high duties or quotas for the import of consumer and industrial goods, subsidization of exporters, along with exemption from duties of imported equipment and technologies. Governments often encouraged the merger of companies (Berry C.H. 1971).

### Conclusion

Having considered the foreign experience of the development of diversification processes, it can be noted that a fairly wide arsenal of funds was used to change the structure of the national economy. However, the direct transfer of the experience of the countries surveyed is impossible, since there are certain differences in the scale, structure and national characteristics of each of the economies.

Kazakhstan has a sufficient number of labor and natural resources, can produce a wide range of goods for export, such a capacious domestic market, can work in most sectors for itself, thereby reducing dependence on exports. At the same time, it should be noted that the use of the experience of other countries in economic diversification is quite acceptable in a number of ways, but taking into account the peculiarities of the domestic economy. On this issue, I previously showed that the primary function of the system of information marketing is to ensure a continuous flow of information from the effective dynamic (depending on the level of integration) and to prepare and adopt additional marketing decisions (Ziyadin S. 2012).

With respect to development and diversification methods, I have made the following statements: "... improving the efficiency of production enterprises is achieved through the development of innovative processes ..." and "... diversification activities should not only meet the specific needs of the community, but also improve the efficiency of the use of certain resources ..." (Ziyadin, S., 2015).

Thus, it can be argued that today in all countries there is a general trend of diversification, raising the process of regulating the proportions of reproduction to a higher level. Diversification opens up additional opportunities for maneuver resources, being a means of adaptation to new objective conditions of capital accumulation, ensures the stability of firms' functioning. An analysis of the specifics of the development of diversification processes in different countries allows us to conclude that Kazakhstan, with its dominance of large companies in the economy and diverse and few breakthrough projects in different sectors, needs to use the experience of developing countries in a productive way.

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Firstly, the management of firms, conceiving an increase in the scale of their own production, found that, in conditions of sluggish economic conditions and high interest rates of loan capital, it turns out to be more profitable to buy another company than create new divisions or expand and modernize its own production facilities with all the accompanying process costs. The expediency of acquisitions is explained by the difference in prices for "old" and "new" capital. Since the old capital can be bought cheaper than making new investments, so far the firms bought each other, if it was required to expand their activities. As a result, a number of firms almost doubled their capital by acquiring assets whose rates are undervalued due to a protracted decline in the stock exchange.

Secondly, many manufacturing companies bought up mining companies in order to protect themselves from a shortage of raw materials, rising prices for petroleum products .

The process of socialization of production and capital flows in a variety of ways: companies merge with one another, some absorb the others, the stronger turn the weaker into suppliers of raw materials, parts, units and provide services. The development of these processes contributes to the creation and strengthening of the most diverse links between them.

Japan. The level of diversification in Japan is now much lower than in US corporations. In Japan, there are more specialized companies, more diversified companies producing associated products and fewer companies producing unrelated products. In addition, in Japan, the products of companies that produce unrelated products are not so unrelated, and in this respect, these companies resemble technology-related products (Goergen M., Renneboog L. 2004).

To see this, one can turn to the history of diversification of Japanese companies. At the same time, in the American industry, the process began to develop in the mid-fifties, was based primarily on production factors and acquired significant significance in the 1960s, in connection with the introduction of strategic planning. And in Japan before the Second World War there were many mergers and acquisitions.

During the war, these companies had to diversify even more to meet the demand for military products. There were frequent acquisitions and mergers in order to increase the productivity of scarce resources and quickly diversify to ensure the fulfillment of military orders.

If you compare the postwar strategy of Japanese companies with the strategy of American and British companies, this will give a striking contrast. American statistics show that the history of American companies is the history of acquisitions. Japanese companies, on the contrary, consistently added new products, introduced new technology from the US and Europe and reached the current level of diversification.

Despite the fact that acquisition is the fastest way to expand the capacity and scale of business, Japanese companies rarely buy other firms to diversify production, preferring internal development or joint expansion under contract.

In addition, absorption and fusion are encountered with enormous social and psychological difficulties and therefore occur on a relatively small scale. Under the law, mergers are possible only on condition of unanimous consent of the directors of the companies being the object of acquisition. In practice mergers and acquisitions are hampered by the institution of "permanent shareholders".

Absorption of other firms in the same industry is not only limited to Japan's antitrust law, but is also not encouraged by morally superior business executives. Every company is seen as a community of people working for life, and selling or buying one company from another does not cause admiration of others.

Therefore, Japan is characterized by the so-called "internal diversification" of production, carried out through internal capital accumulation, and this process has a significant scale of development.

