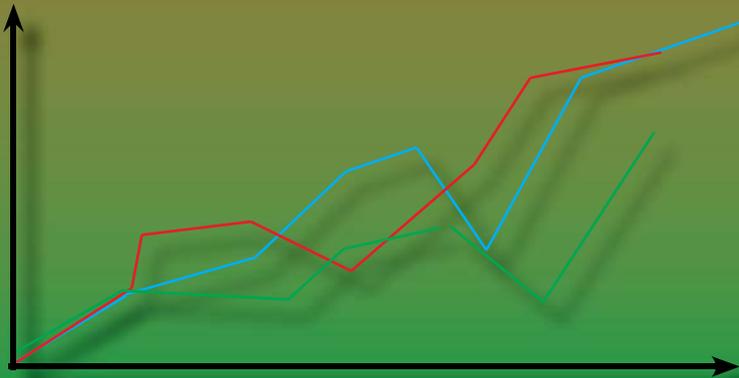


Albert G. Kostromin

**SUPPORTING STRATEGY
FOR ECONOMIC GROWTH
OF REGIONAL INDUSTRIAL
PRODUCTION**



Hannover 2014

Albert G. Kostromin

**Supporting strategy
for economic growth
of regional industrial
production**

Sonderdruck aus
Hannoversches Jahrbuch
Band 7, 2014

Serie: Wirtschaftswissenschaft (Ökonomik)

*Unter Förderungen der Europäischen
Akademie der Naturwissenschaften e.V.*

Hannover 2014

Albert G. Kostromin

Supporting strategy for economic growth of regional industrial production

Germany, Hannover -2014

Academic Advisor

Doctor of Economics, Professor E.N. Krolivetskiy

Professor Vladimir Tyminskiy

Reviewers:

Professor Wojciech Slomski

Professor S.M. Pyastolov

Professor A.L. Kurakov

Europäische Akademie der Naturwissenschaften Gegründet 2002

30161 Hannover

Husarenstr. 20

E-mail: vladimirt2007@googlemail.com

Vorstand und Beirat

Vorstand:

1. Vorsitzender Prof. Dr. V. Tyminskiy
2. Vorsitzender Prof. Dr. A. Gorbunov
3. Vorsitzender Prof. Dr. chem. R. Melik-Ohanjanian

Beirat

Prof. Dr. V. Tyminskiy

Prof. Dr. med. K Matkovski

Prof. Dr. B Rimantas

Table of Contents

Introduction	4
Bibliographic list	24
Author's scientific work:	31

Supporting strategy for economic growth of regional industrial production

Introduction

According to the author, necessity to form and realize the strategy for economic growth of industrial complex in medium-term and long-run periods is directly connected with its main objective to achieve the maximum possible economic effect within constantly changing innovative, economic and financial conditions of the environment.

This scientific paper demonstrates methodological provision based on the fact that the strategy for economic growth chosen by management entity for long-term development of local and branch components of industrial complex not only reflects its objective essential vision, but it also points the strategic management entity at social and economic development by one of the most acceptable ways. Neutralization and grading of macro environment negative influence can be achieved by using the number of business measures, realized within the strategy for economic growth chosen by economic entity or by general economic activities of industrial complex in accordance with available resource potential balanced with the main objectives of achievable economic effect. Strategic area of supporting strategy for economic growth of industrial enterprise also includes the complex measures for creation and production of new or modified types of production, services and diversification chosen by the strategic management entity.

The paper mentions that essential environmental change is one of the main factors, influencing the choice and execution of the strategy for economic growth based on the complex business measures focused on extension of competitive advantages structure, diversification of industrial production, demand and supply equilibrium at the goods and services markets, their quality improvement. In conditions of changing innovative environment where new technological possibilities appear, even justified task planning cannot compensate the corresponding

interaction between types of activities. However, some strategic planning specific tasks may change depending on starting business environment of companies. Some of them have problem with synergy development, the others – with maintaining of economic growth rates. According to this paper, potential possibility of following the main objective of the company, connected with good economic effects, is also essential for another task which is often faced by other companies carrying out the strategy of new acquisitions (merging) integration: this is a solution of problems connected with the company's main objective, it determines a stable growth in the conditions of strong influence of environmental negative factors.

In order to choose and carry out the strategy for economic growth of economic entity and economic business activity based on use of internal resources and organization of diversified production, integration with labor, information and material and technical resources of external economic entities, it is necessary to analyze objective and real economic, social and financial results of retrospective and current activity of research subject. It should be supported by analysis results of company's resource potential effectiveness, of its business activity and of general regional business, specifying the quantitative and qualitative parameters of the main objective of strategic planning entity focused on good economic, social and financial results, corresponding with the results of available resource potential.

In order to determine quantitative and qualitative changes in regional industrial production the composition of external factors influencing social and economic development of regional business, its business activities of industrial complex is arranged into specific groups by this paper. These influence groups are represented by economic, social and cultural, innovative, political and legal factors.

With help of existing general tendencies in social and economic development, influencing the national economy (globalization, hyper competition), the author was able to estimate the degree of external and internal factors impact on economic growth, competitive position of business entities, selection of general (basic) strategy of social and economic development.

The scientific paper presents conceptional provisions on realization of the strategy for economic growth of regional industrial production due to proper resources and their integration with the resources of external market players based on connected and conglomerate diversification within the new business mechanism which is focused on rationalization and harmonization of interaction of all the resource and technological components of strategic management system by development of regional social economic system, its local and branch components of industrial complex.

Organizational and economic feasibility for formation and use of mechanism of balanced economic growth of regional industrial production is that elements of strategic management system of current activity and long-run period development should interact in the order and rationality corresponding to the objective established for regional social and economic system and its industrial complex – to achieve the greatest economic and social results in specific long-run period. The new rationalization and harmonization mechanism for the elemental interaction of the long-run economic development strategic management system focused on its organizational and economic, innovative, marketing and other measures, in its turn will help to achieve the planned economic results and effectiveness of industrial production.

Diversification strategy for local and regional branch component of industrial complex within formation of economic growth mechanism specifies the selection of the most optimal ways for possible increase in economic result and competitive position with a perspective to create technologically improved and socially oriented industrial complex.

According to this paper, particularities of the strategy for economic growth, realized by diversification of industrial companies, lie in the fact that it allows to meet the market's requirements and interests of regional and economic management, besides it is one of the leading movements in social and economic development of industrial complex. This process helps to the industrial companies not only to survive in current business conditions, but it also supports an innovative level corresponding to the environmental changes, liquidates gaps in the technological production

phases, reduces industrial dependency on supply of component parts from other countries, finds a solution of problems connected with collaboration with other countries and import substitution, satisfies the internal consumer goods demand.

According to the scientific paper, main directions and elements for formation of economic growth strategy implementation model, scientific-technical and technological policy within business activities of industrial complex are represented by modification and development of scientific, technological and industrial potential based on: implementation of national and foreign technological and information novelties; formation of infrastructure, introducing new industrial goods into the market; increase of economic interests in production diversification for industrial companies; formation of regional information system of scientific research results and R&D; incentive programs for industrial companies and high-tech industry, keeping, creating and promoting own scientific-technical and production structures.

Subject and role of strategy for economic growth of regional industrial complex

Necessity to form and realize the strategy for economic growth of industrial complex in medium-term and long-run periods is directly connected with its main objective to achieve the maximum possible economic effect within constantly changing innovative, economic and financial conditions of the environment.

Neutralization and grading of macro environment negative influence can be achieved by using the number of business measures, realized within the strategy for economic growth chosen by economic entity or by general economic activities of industrial complex in accordance with available resource potential balanced with the main objectives of achievable economic effect.

The strategy for economic growth chosen by management entity for long-term development of local and branch components of industrial complex not only reflects its objective essential vision, but it also points the strategic management entity at social and economic development by one of the most acceptable ways.

That is why the concept of «strategy for economic growth» can be

understood not only as a complex of essential business, innovative, structural or finance and investment measures, helping to follow the management entity's direction to support and increase the economic growth rates in corresponding conditions of macro- and micro-environments, but also as an object-orienting guideline aimed to achieve economic results by using internal and external resources, as well as by combining them in integration processes.

Thus, for example, the strategy for social and economic development of companies and business activities of industrial complex by using internal resource potential can be realized by individual and combined objective orientations to achieve the calculated (expected) economic growth.

In future time period such an objective orientation can be presented by a considerable increase in production of qualitative production which is popular in the market. Strategic direction of support for economic growth of industrial company is also presented by the strategic management entity's complex measures of creation and production of new or modified types of production, services and diversification of production.

Production diversification for industrial economic entities within their practical activity and within economic science is one of directions for realization of economic growth strategy and is often considered as diversity, diversification of production. Such a concept of industrial production diversification is based on the fact that industrial company is an asset complex used for entrepreneurial activity which is focused on making profit by using the assets, selling goods, carrying out works and rendering of services [6, 27]. Besides, there is an industrial business activity connected with production, commercial-trading activity – connected with purchase and sale and finance and credit activity - connected with currency and securities operations [31]. That is why diversification of industrial company can be presented as a diverse development of its production, commercial-trading and finance and credit activity.

However, the scientific community does not have one frame of mind on interpretation of concept «strategy of diversifications» as the company's objective-orientation for economic growth.

We think that the most frequent concepts of diversification strategy of an industrial company, which can be found in economic literature, will include:

- company's changes under the influence of market environment, competitiveness and changes in economic relations [34, 40];
- entering of formerly specialized companies into other branches [41, 43];
- diversification of assortment and output range [19, 24];
- distribution of company's production between different target markets [26, 64];
- interindustry competition form [65];
- business expansion beyond the scope of main activity [84];
- any change of (increase, decrease) activities number [43, 47];
- creation of new industries and using the existing ones for release of a new product range [8, 41];
- collaborative activity, acquisition or merging of enterprises [41];
- transformation of a company into the group of procedural and institutional structures manufacturing several different products and operation in several different markets [41];
- one of forms of capital concentration [31];
- simultaneous development of many unconnected with one another production types within the company [66];
- involving of new companies for further production processing or for its support with raw-materials, as well as for direct distribution of own goods [3, 28];
- one of basic company's strategies focused on setup for production of a new product in the market [93];
- merging of several production methods within the company [68];
- different business activities of the company [41, 77];
- redistribution of company's resources between different scopes of activity in order to decrease business risk [34, 71].

These concepts of strategy for economic growth based on diversification show only certain sides of production diversity. Thus, authors consider company's diversification as a process and find its reasons, but they do not reveal content of company's economic and innovative changes.

Whereas, some of these transformation (company is no longer specialized and it starts working in a new branch) are described by follower of another viewpoint [44, 47]. Meanwhile this interpretation of diversification strategy does not show any perspectives for company's activities in the traditional branch or any ways to start working in a new branch of industrial complex. Besides, according to such an interpretation, industrial company diversification is a single-shot process which is typical only for specialized economic entities.

However, according to world and national experience, this process can also continue within quite a diversified company. For example, «Production Association "Urals Optical and Mechanical Plant"» OJSC (Ekaterinburg), producing a wide range of optoelectronic systems for space and flight vehicles and medical hardware, in 2004 it had also mastered production of navigational satellite receivers [24].

Meanwhile, objective-oriented diversification strategy of industrial company can be specified by the approach of the researchers who consider it only as company's product and services differentiation. We think that in relation to strategy for economic growth based on company's diversification it is more correctly to apply the term «stock items» which can be understood as total product line manufactured and promoted by the company, as product expansion - closely related product group is possible within the specialization scope of industrial company.

Thus, the specialized plant «Electrocable» (Kolchugino, Vladimir region), constantly expanding its product range, at the present time produces more than 2000 of cable label sizes [35]. So, company's diversification strategy by setup for production of a new product type should be distinguished from product expansion of industrial company by releasing new modifications of main production types.

Therefore, it is important to detect a product's novelty level, which is basic for product expansion when releasing the company's diversification strategy. Such a novelty level can be understood as a functional novelty of this product type which can be reflected as change in its functional objective in relation to the traditional product range of industrial company, and as its homogeneous appliance to product of another sub-

branch, branch or general industrial complex, as a specific appliance to products of another business activity.

At the same time, it is possible to specify the number of functional novelty levels of diversified products.

Thus, one of novelty levels for new products lies in the fact that they have a functional objective which differs from company's traditional product lineo. However product types belong to production volumes of the same sub-branch. «Gazelle» minibuses of «GAZ» production (Nizhny Novgorod) can serve as an example of such products.

It is necessary to outline that some economic scientists consider realization of company's diversification strategy as distribution of their production between different target markets. However we think this approach is too general and it cannot reflect any essential characteristics for distribution process of manufactured and realized goods.

New product is homogeneous with its similar types of another sub-branch within the same branch. Typical example can be demonstrated by fodder harvesting equipment which is produced by «Sedin» company (Krasnodar) simultaneously with metal-cutting equipment [82].

Modified or new products belong to analogical production of another branch within the same industrial complex. When a company starts producing such products, remaining a part of the same branch, at the same time it starts competing with companies from other branches. That is why some economic scientists consider a diversification strategy of industrial company only as an interindustry competition form. But we think that this concept does not takes into account a possibility of company's diversification by manufacturing products typical for the same branch and that is why it is not entirely correct.

Diversification strategy for industrial production does not exclude a possibility of new product's belonging to another branch component. Such products can include, for example, oil-field equipment, road-building machinery and rolled metal products which are produced together with artillery systems, «Motovilikhinskiye zavody» JSC (Perm) [31].

There is also a possibility that a new product belongs to another business

activity. Thus, «Aerospace Equipment Corporation» head office (Saint-Petersburg) invested more than 15 million of USA dollars into creation of electronic payment system «Pay Cash» («Yandex-money»), which in contrast with company's traditional industrial business belongs to finance and credit business.

Manufacturing of such products is about expanding of industrial company's scope of activity allowing to consider the company's diversification strategy only as a process of expanding in relation to scope of its activities. However, this viewpoint does not take into account a possibility to release the industrial company's diversification strategy for economic growth by manufacturing the products which belong to the same scope of business activity. That is why we think that the viewpoint of many authors, concerning company's diversification strategy by change in number of its activities, is not quite correct.

It is also necessary to outline that when carrying out the company's diversification strategy, none of its activities is a functional extension of another one. [28]. Thus, company's diversification does not include acquisition, rent, maintenance of property and transportation of its cargos which are carried out together with retail sale, for example, «Trading House "Kopeika"» JSC (Moscow), and also acquisition of banana plantation in Ecuador by one of the biggest Russian importers of fruit, namely by JFC company (Saint-Petersburg) [54, 68].

It is possible to concretize the methods of diversification strategy for economic growth with the help of renderings of authors who consider it as processes of creating new industries and using the existing ones, acquisition, merging of companies, and transformation of a company into economic entity's group producing several different products and operating in different markets.

However, these concepts need to be specified. Thus, merging and venturing are not traditional methods of diversification as they require formation of a new legal body. That is why we think that there can be the following company's diversification strategy methods.

Mastering the manufacture of a new product line by using plant capacity can serve as an example for such a diversification method. Thus, «Micron» plant, member of Sitronics corporate group, specialized in production of

integrated microcircuits, had mastered the manufacture of TFT-panels and won a tender for production of bio-passport chips [49, 54].

It is possible to carry out the diversification strategy by forming an internal organization unit manufacturing new products. The work shop manufacturing plastic products, formed at «Pelican» confectionery company (Podolsk, Moscow region) can be a good example of such a unit [35, 37].

In this regard it is necessary to say that a number of economic scientists consider a company's concurrent manufacture of new products as an innovation, but not a diversification [46]. However, innovation is a broader concept, and connection between concepts «company's diversification» and «innovation» can be presented in the figure 1.

One of methods and implementation instruments of diversification strategy is investing into manufacture of a new product line performed by another company. For example, «Bystrov» company (Saint-Petersburg), specialized in manufacture of instant food, has invested 5 million euro into creation of a cognominal yogurt by «Velle» company [28].

Diversification strategy for economic growth can be carried out by merging or acquisition of controlling block of stock belonging to a company from different branch. Typical examples of such a diversification strategy may include acquisition of Taganrog commercial seaport by «Karavai plus» bakery company (Taganrog, Rostov region) and acquisition of a controlling block of stock of «Mashmir» printery (Moscow) by «Rosbuilding» company (Moscow), specialized in commercial property management [54, 68]. It must be emphasized that when carrying out the company's diversification strategy, acquisition of another economic entity is performed with purpose of its further social and economic development, but not for its beneficial resale.

Diversification strategy can be also carried out during acquisition of small block of stocks and shares belonging to the companies of another branch. Thus, «Electrocable» plant (Kolchugino, Vladimir region) is a holder of stocks and shares of 13-40 of diversified companies [53].

Practice of integration and achieving of economic results' objectives during carrying out the diversification strategy testifies that 70% of companies are diversified by merging and acquisition of shares of

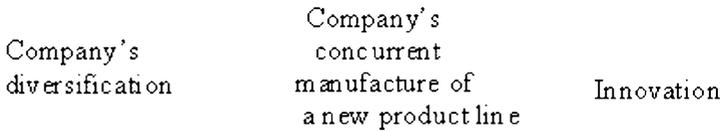


Fig. 1. Connection between concepts of «company's diversification» and «innovation»

another economic entity and by investing into new projects of other companies, 20% – by mastering the manufacture of a new product line, 10% - by merging and venturing [8]. Without regard to merging of diversified companies and establishing new economic entities, connection between main methods of company's diversification strategy can be illustrated by the diagram (fig. 2).

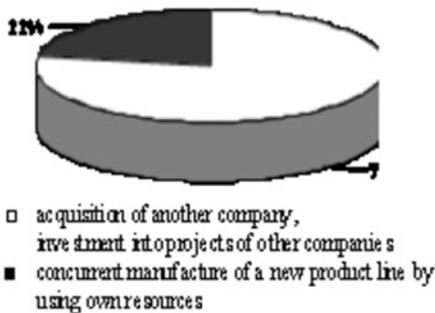


Fig. 2. Diagram of implementation structure of company's diversification strategy methods

So, the major part of companies carries out their diversification strategy by acquisition of another economic entity enabling some economic scientists to consider it as one of forms of capital concentration. Meanwhile, such an approach does not take into account other company's

diversification methods and that is why it does not show the entire subject and content of this process.

At the same time, presence of several alternative variants actualizes a

problem of choosing the optimal company's diversification strategy method. Approach to this problem offered by Bauman and Folkner may be of interest, according to them, the choice of a particular company's diversification method is, first of all, determined by its capacity to carry out new type of activity (fig. 3).

Generally we can agree with number of provisions of these authors' concept. However, it is worth emphasizing that as the company's diversification strategy is focused on company's long-term achievement, boxes 1-3 in the matrix are of particular importance. If a company is not capable to master a new scope of activity by itself, then it is more rational to concentrate a diversification strategy for economic growth on investing into manufacture of a new product line by another company, which has a high level of production technology in this sphere or its acquisition (box 1, fig. 3).

When company staff is capable to carry out a new activity type, but the company is equipped only with single-purpose industrial equipment, it

Strategic importance of a new activity type	high	1. Investment into projects of other companies, acquisition of another company	2. Establishing of a new internal unit	3. Mastering of products manufacture by using available production assets
	medium	4. Investment into projects of other companies	5. Investment into projects of other companies	6. Mastering of products manufacture by using available production assets
	low	7. Acquisition of another company	8. Acquisition of another company	9. Acquisition of another company
		low	medium	high
		Company's capacity to carry out a new activity type →		

Fig. 3. Matrix, showing dependence of company's diversification method on its capacity to carry out a new activity type

is worth creation and corresponding reequipping of a new company's unit (box 2, fig. 3). But when a company is capable to carry out a new activity type within economically acceptable results, it is diversified by manufacturing of new products with the help of available production assets (box 3, fig. 3).

At the same time it is possible to concretize the perspectives of traditional activity type during company's diversification with the help of economic scientists' approach, considering it only as a concurrent development various unconnected with one another production types within the company.

However this economists' conception also has some weak points, particularly that main and new scope of company's activity are only limited to production and do not have any connection.

Thus, despite the fact that manufacture of a new product line usually requires improved skills, modern technologies and equipment, presence of connection between main and new company's activities is explained by the fact that the first one is a basic preparatory phase for the second one, establishing its direction and effectiveness. Moreover they can be connected by other common factors whose content can become one of fundamental principles for classification of company's diversification types.

It should be emphasized that a number of economic scientists distinguish connected and unconnected company's diversification types within integration strategy issue [41, 44]. However it is not quite correct to use these terms, as «unconnected» (conglomerate) diversification also requires availability of essential connection between main and new company's activities. That is why the majority of authors call such a company's diversification strategy as conglomerate, secondary, lateral, cross or indirect without distinguishing a connected diversification [42, 85].

In this regard, we think it is more correct to use the terms which are established in scientific literature: conglomerate, concentric and horizontal company's diversification strategy.

Besides general factors of main and new company's activity during realization of conglomerate diversification strategy are presented

by finance and management. Typical example of conglomerate diversification strategy is shown by such economic entities as «Pelican» (Podolsk, Moscow region), producing furniture, plastic products, toys and bakery equipment together with confectionery products and «Extra M Media» publishing house (Moscow) which owns a publishing complex, distributor of printed goods, tourist company, restaurant and commercial property [6].

Within company's concentric diversification strategy, its main and new products are also connected by one technology. For example, such a diversification type is typical for «AST Ice» company (Voskresensk, Moscow region), producing consumer ice, ice dishware for restaurants, manufacturing and utilizing ice sculptures and ice town and also for companies of «Ruselprom» corporate group (Moscow), whose production is based on electro motors [28].

Finally within company's horizontal diversification strategy its new product is focused on traditional consumers, and general factors of main and new scope of activity include finance, management and marketing experience of staff. For example, traditional consumers are a target audience for «EA Cinema» corporation (Ekaterinburg) carrying out construction and management of cinemas along with distribution of foreign movies in Russia and retail sale of audio- and video products [35]. Horizontal diversification has also been performed by «Allo Card» company (Moscow) by selling periodical publications along with communication payment cards and passage tickets in its kiosks [58].

At the same time a number of economic scientists distinguish such types of company's diversification as horizontal and vertical integration [41, 93], identifying a diversification of economic entities with their vertical integration. But horizontal integration is a group of companies, manufacturing analogical products, in other words it does not involve acquisition of new product types. That is why we think it is not a variety of company's diversification. Acquisition of technical carbon belonging to Volgograd plant of technical carbon by Omsk economic entity can serve as a good example [28].

Vertical integration is connected with company's acquisition of possibility to manufacture a new product line, as raw materials,

component parts, materials and final products have different objectives. However it is possible to consider it as a diversification type only if there is no merging of a manufacturer of products analogical to those which are produced by the company. Thus, acquisition of Moscow retail distributor «Fink» company by the largest ice-cream producer «Inmarko» company (Novosibirsk) cannot be considered a diversification as «Inmarko» company also owns 2,5 thousand of other kiosks selling the ice-cream [35].

That is why company's vertical (connected) diversification by acquisition of consumer of its production or of supplier of components and materials should be distinguished from vertical integration of the companies.

In this regard, within company's vertical diversification general factors of its main and new activity will include staff's experience and belonging to one technological chain «supplier-consumer». In this case company's vertical integration can be carried out «forwards» and «backwards». Construction of light river vessels by Moscow inland navigation company and creation of line for ketchup production based on manufacture of plastic bottles at Lytkarinsky food complex (Moscow region) can be a typical example of vertical integration [28].

So, according to general factors of main and new activities it is possible to distinguish conglomerate, horizontal and vertical diversification of the company.

Diversification strategy for economic growth is one of technological components of company's strategic management focused on production and release of a new product line.

Within strategic management it is worth distinguishing three main approaches to strategy's subject: to general objective, plan and positioning. Taking into account that «diversification» term was introduced into scientific use by the founder of strategic planning school I. Ansoff and that representatives of alternative movements generally consider other basic strategies, it is possible to conclude that diversification followers within strategic management consider a strategy as achievement of economic results in company's development in constantly changing environment. Meanwhile, company's diversification is likely to be a process of realization of such a strategic orientation.

In addition to that it is worth saying that diversified company's concurrent manufacture of several different products requires a development of several different social and economic strategies for each of them. That is why company's diversification should be considered as a realization of company's individual program or strategy derived from several basic ones (general ones).

In order to characterize company's diversification a number of economic literature authors use a matrix of I. Ansoff, which uses only two variables: product and market (fig. 4). In this case the matrix does not take into account that a company continues producing its main product types, so it generally shows the change in its specialization. That is why with its help some authors conclude that company's diversification can be characterized by a high level of business risk [22].

Market	new	Market development	Diversification
	old	Market entry	Product development
		old	new
		Product	

Fig. 4. Matrix of I. Ansoff «product/market» [5]

In this context the matrix of I. Ansoff needs specification by showing that production of the main product line is continued, and also of possibility to carry out a company's horizontal diversification strategy focused on traditional consumers (fig. 5).

Market	new	Market development	Conglomerate, concentric, vertical diversification
	old	Horizontal diversification	
		old	new
		Produkt	

Fig. 5. Matrix of I. Ansoff – possibilities for company's diversification development

It is particularly interesting to study the concepts of essential approach to company's diversification strategy when it is grouped within several production types and company's different business activities. We think

that they reflect the process of company's diversification – diversified economic entity.

Company's diversification subject is better described by the viewpoint of authors who consider it as a re-distribution of company's resources between different types of activities in order to decrease a business risk. However, we think it is necessary to specify an objective orientation of company's diversification.

Scientific approach of different authors concerning the objective orientation of diversification strategy [15, 82] allows to distinguish the following possible objectives for companies' diversification:

- providing and supporting of existing economic development of the company in conditions of economic crisis (for example, in 1990 Kazan aviation production association mainly developed by trolleybus production);
- neutralization of market volatility, seasonality of production (in order to stabilize its production volumes, the ice-cream factory in Moscow-area «Alter-west» launch a production of cake cheeses, frozen chips and berries);
- import substitution, elimination of production discretization (ammonia producer «Tolyattiazot» corporation mastered concurrent production of equipment for its synthesis in order to be independent from foreign suppliers);
- company's adaptation to changes in consumer demands (Moscow company «IT» can be characterized as an organization aimed to satisfy increasing demands of its clients, it is specialized in assembly and sale of computers, software development and, finally, in production of computerized budgeting and planning systems for the companies);
- preparation for change in activity type (stagnation of Russian instant food market forces «Bystrov» company to slowly leave it by diversification into the neighboring sector – production of beverages and pharmaceutical products);
- receipt of profit from a new product or service (its mountain skiing school for children and young people alone brings to «Kant» corporation (Moscow) an annual receipts in the amount of around 1 million of USA dollars);

- company's appreciation (thanks largely to establishing of several optician shops based on available selling space, the appreciation of «36,6» pharmacy chain (Moscow) has now gone from 108 million of USA dollars up to 170 millions of USA dollars);
- new market entry (Moscow company «Kampomos» launched production of cooled pizza along with sausage production, gaining 12% of this product capital market);
- new competitive strengths, widening of competitive methods (typical example – acquisition of transport company «Centr rudnyh perevozok» by «Metalloinvest» CJSC, which allowed not only to cut down transportation expenses for its own ore minerals, but also to level up prices for competitors' transportation of cargo);
- implementation of production and synergy effects (effect of increase in production lies in use of benefits from purchases of larger batches and component parts at factory prices, increase in degree of utilization of industrial capacities and staff, use of general company's infrastructure, its business reputation, promoting campaign and other factors in production and distribution of main and new production. Instant coffee, leafy and packeted tea produced by DHV-S company (Moscow). They belong to one grocery group with storage conditions, shelf life and logistics similar to its main products – instant noodles and puree, baked breads and chips under «Rollton» trademark, considerably simplifying goods distribution. Synergy effect, introduced into scientific use by I. Ansoff, is partly based on economic benefits of production size effect, but it also includes other components, named by Ansoff as management synergy) [5];
- capitalization of economic entity's business reputation and its brand (when entering the neighboring market of non-alcoholic drinks, the brewing company «Ochakovo» (Moscow) relied on its brand awareness among the consumers, which was estimated in the amount of 520 million of rubles, and a considerable sales volume in shops of «Trading house «Kopeika» JSC (MOSCOW) includes the product of its own brand);
- bilateral transfer of technologies between company's scopes of activities, thanks to which the diversified company is able to use the technological experience of staff when setting up for a new

production and to implement technologies developed in the new scope of activity when manufacturing the main products (acquisition of company producing the running skis by «Kant» corporation (Moscow) was aimed to implement the company's developed technologies for manufacture of mountain skiing fixations in order to improve the fabric products and get access to the technologies of manufacture of running skis for modernization of the mountain skiing equipment produced by the company);

- opportunity to acquire a company cheaper than its real value (for example, such an opportunity was used by a famous entrepreneur K. Bendukidze, who during check auction acquired a block of stocks of «Uralmash» OJSC (Ekaterinburg) for the thousandth part of its real value);
- effective use of company's excessive resources (first of all, they include unused production equipment and space. For example, vacant space of «Sedin» company (Krasnodar) has become a basis for production of furniture, windows, развернуто производство мебели, окон, mattresses, home appliances, printing equipment, pastries and mayonnaise);
- industrial waste recycling («ArtLen» economic entity (Moscow) produces from main products wastes - linen clothes - accessories and souvenirs);
- comprehensive development of natural resources (forestry is a perspective direction for Russian oil and gas companies diversification, mastering remote territories of the country, which have some recoverable forest reserves along with oil and gas reserves).

Within company's strategic management the main strategic objective for a diversification is to decrease business risk. Other objectives of diversification economic growth strategy are tactical and they can be grouped in the following way: ensuring sustainable economic development of the company, creating conditions for its economic growth and improving production efficiency. In this case, we should agree with the viewpoint of a number of authors concerning the fact that the diversification strategy's objective depends on the stability level of national economy, business environment within the industry and company's finance and economic condition[8]. The content of

potential targets for company's diversification strategy is presented in the figure 6.

<i>1. Decrease of business risk</i>	
Business environment of industrial company	
Stable economic system, company's steady state <i>2.1. Formation of conditions for development and growth</i> – expansion of market share; – new market entry; – formation of new competitive strengths; – expansion of competitive methods; – increase of company's market value.	Unstable economic system, company's unsatisfactory state <i>2.2. Ensuring development due to the anti-crisis measures</i> – mitigation of economic crisis; – neutralization of market volatility impact, production seasonality; – elimination of defects in the production chain; – adaptation in the conditions of change in consumer demands; – preparation for change in the scope of activity; – profit from realization of new products.
<i>3. Efficiency improvement in company activity</i> – use of synergy effect; – use of technological, management and marketing experience of staff; – capitalization of company's brand business reputation; – consumption of company's excessive resources; – use of industrial scale effect; – opportunity to acquire another company cheaper than its real value; – complex use of natural resources.	

Fig. 1.6. content of potential targets for company's diversification strategy

In summary, essence of the strategy concept «*diversification of industrial company*» lies in the fact that it redistributes resources when realizing the company's individual development strategy, ensuring decrease of business risk by producing a new industrial product line.

Bibliographic list

1. Ayrapetova A.G., Lastovka I.V. *Innovation management in industrial production*// *Journal of Legal and Economic Studies*. - 2011. - № 4. – P.7-11.
2. Akmaeva R.I. *Strategic planning and strategic management*. - Moscow: Finance and Statistics, 2006.
3. Aleksandrova E.A. *Improvement of the efficiency and competitiveness of the re-manufacturing industries based on production diversification of: Ph.D. in Economics*. - Moscow, 2004.
4. Antonov A.S. *Analysis of investment management capacities in innovative enterprises of the Russian Federation*//*Bulletin of the Russian Academy of Natural Sciences. Economic series*.-2011.-№ 15 (4). - p. 36-40.
5. Ansoff I. *The new corporate strategy*. - St. Petersburg.: "Piter" publishing house, 1999.
6. Argunov R.Y. *Interindustry diversification of small companies as a stabilizing factor in the regional economy: Based on materials of the Karachay-Cherkess Republic of: Ph.D. in Economics*. - Ivanovo, 2002.
7. Aronov A.M. *Strategic planning in diversified production conditions*. - St. Petersburg, 2001.
8. Aronov A.M., Petrov A.N. *Diversification of production: development theory and strategy* - St. Petersburg.: GUEF, 2000.
9. Basovskii L.G. *Theories of economic analysis*. - Moscow: INFRA-M, 2001.
10. Basovskii L.N. *Prognosis and planning in market conditions*. - Moscow: INFRA-M, 2006.
11. Beisenbayev A.A. *Change of regional economies of the Republic of Kazakhstan over innovation and service development*//*Bulletin of the Russian Academy of Natural Sciences. Economic series*. - 2011. - № 15 (4). - P. 40-43.
12. Bolshakov A.S., Mikhailov V.I. *Modern management: theory and practice*. - St. Petersburg.: "Piter" publishing house, 2000.
13. Bolyakov L., Gruzdev A., Scheverov Y. *Who needs intellectual property among us?*// *Military-Industrial Courier*.-2006. - № 7.
14. Bowman K. *Practical strategy*. - St. Petersburg.: "Piter" publishing house, 2003.
15. Budagov A.S. *Formation management system for regional innovation and investment development: conceptual and methodological provisions*. - St. Petersburg.: SUAI, 2010.
16. Vasilenok V.L. *The world economic crisis and Russian economic problems*// *Socio-economic situation in Russia in the new geopolitical and economic and financial conditions: realities and prospects of development: collection of scientific articles*. - St. Petersburg. 2008.

17. Vasiliev V.P. *Development of innovative activity in the USA or how to double GDP.* - Moscow: Economics, 2005.
18. Velykanova D.S. *Theoretical approaches to the definition of the strategic priorities in the management//Legal and Economic Studies Magazine.* - 2011. - № 4. - P. 126-130.
19. Verenikin A.O., Voloshin D.I. *Value basis of structural economic policies//Prognosis issues.* - 2006. - № 3.
20. Vissema H. *Strategic Management and Entrepreneurship: possibilities for future prosperity.* - Moscow: Finpress, 2000.
21. Volchik V.V. *Evolutionary Paradigm and economic institutional transformation.* - Rostov on Don, 2004.
22. Hajiyeu M.M., Naurhanov H.Y. *Production diversification efficiency within regional industrial companies.* – Makhachkala: ISEI DSC RAS, 2005.
23. Hamidov G.S., Kolosov V.G., Ottomans N.O. *Basics of innovation studies and activities.* - St. Petersburg: Politekhnik, 2000.
24. Gafurov I. *Assessment of economic potential in the area//Economist.* - 2005. - № 3.
25. Gluhov V.V. *Russian economy in the XXI century//Scientific and technical statements.* - 2002. - № 1 (27).
26. Glyunenko A.L. *Economic development management.* - Moscow: Delo, 2002.
27. Gomon A.P. *Economic justification of company's integration strategies//Bulletin of the Russian Academy of Natural Sciences. Economic series.* - 2010. - № 14 (4). - P. 35-40.
28. Gorshkov V.G., Markov V.D., Kartashov L.I. *Industrial company's diversification.* - Barnaul, 2000.
29. *State regulation of the market economy/under redaction of V.I. Kushilin.* - Moscow: Publishing House of RAGS, 2002.
30. *The Civil Code of the Russian Federation. Part 1.* - Moscow, 2004. - Art. 2, 132.
31. Grant R. *Diversification and financial services branches.* - St. Petersburg.: St. Pete, 2004.
32. Gukasyan G.M. *Economic theory: problems of "new economy."* - St. Petersburg, 2003.
33. Darenskikh Y.A., Kolotova N.S., Dramova L.B., Zimina M.V. - *Factor analysis of economic efficiency of regional social production//Economic questions.* - 2005. - № 12.
34. Daft R. *Management.* - M.: Print, 2007.
35. *Russian economy diversification; current issues and tasks: report of the*

- Ministry of Economic Development of the Russian Federation//Economic issues. - 2003. - № 12.*
36. *Dli M.I., Kuksin R.P., Baguzova O.V. Selection model for strategy of innovative development of the metallurgical company//Bulletin of the Russian Academy of Natural Sciences. Economic series. - 2011. - № 15 (4). - p. 66-69.*
37. *Report of Voloshin Y.P. presented at the collegium joint session of the Ministry of Industry and Energy of Chuvashia and Expert Council on industrial, scientific, technological and innovation policy dated 07 April 2010/inistry of Industry and Energy of the Chuvash Republic.*
38. *Domanin S.A. Investment role in regional innovative potential//Regional innovative socio-economic development issues: materials of Russian national research and practical conference – Cheboksary: Chuvashia University Press, 2006. - p. 120-130.*
39. *Dronov R.V. Exploration of contemporary issues connected with innovation development in Russia//Legal and Economic Studies Magazine. - 2011. - № 4. - p. 136-139.*
40. *Zhuravlev V.P. Theory of system management. - M.: Examen, 2006.*
41. *Zabelin P.V., Moiseeva N.K. Basics of Strategic Management: manual. - Moscow: Informative implementation center "Marketing", 1998.*
42. *Zaitsev L.G., Sokolova M.I. Strategic management. - Moscow: Magistr, 2008.*
43. *Zub A.T. Strategic Management: textbook. - Moscow: TK Welby; Publishing house "Pro-spekt", 2008.*
44. *Zub A.T. Strategic Management: Theory and Practice. – Moscow, 2002.*
45. *Ivanova I.V., Krolivetskiy E.N. Strategic analysis of external and internal environments of economic entities//Bulletin of Chuvash University. - 2011. - № 4. - P. 415-418.*
46. *Iliyn A., Kuharchuk A., Adventures of marketing in Russia//Practical Marketing. - 2002. - № 1.*
47. *Imamnazarov I.A. Strategies of innovation and investment policy as a factor in long-term growth of the national economy//Legal and Economic Studies Magazine. - 2011. - № 4. - P. 140-144.*
48. *Information Society Indicators. 2010: stat. Sat - M.: National Research University - Higher School of Economics, 2010.*
49. *Kedrin I. Takeoff runway for aviation industry//Military-industrial courier. - 2005. - № 10.*
50. *Complex economic analysis of a company/under the editorship of Voytolovskiy N.V., Kalinina A.P., Mazurova I.I. - Moscow; St. Petersburg; Nizhny Novgorod: "Piter" publishing house, 2009.*

51. Kondratyeva A.V. *Assessment of internal and external environments in the process of strategic planning of industrial production development//Bulletin of the Russian Academy of Natural Sciences. Economic series.* - 2010. - № 14 (4). - P. 47-50.
52. Kondratyeva A.V. *Long-term development strategy of industrial complex economic activities.* - St. Petersburg: "Gerda" publishing house, 2010.
53. Korotchenko I. *Strategic objective – formation of multi-industry corporation//Military-Industrial Courier.* - 2005. - № 26.
54. Kostromin A.G. *Companies' diversification: necessity and main methods//Collection of doctoral students, graduate students and applicants.* - Cheboksary University: Chuvash University Press, 2010. - Issue. 4. - P. 160-164.
55. Kostromin A.G. *Foreign experience of production diversification and formation of diversified structures//Bulletin of Chuvash University.* - 2010. - № 2. - P. 368-372.
56. Kostromin A.G. *Regional economic development through diversification of companies//Collection of doctoral students, graduate students and applicants.* - Cheboksary University: Chuvash University Press, 2010. - Issue 3. - P. 45-49.
57. Kostromin A.G., Sergeev D.V. *Objectivity of industrial diversification in the current conditions//Bulletin of Chuvash University.* - 2010. - № 1. - P. 368-377.
58. Kostromin A.G., Sergeev D.V. *Industry diversification strategy//Collection of doctoral students, graduate students and applicants.* – Cheboksary: Chuvash University Press, 2010. - Issue 3. - P. 94-97.
59. Koch R. *Strategy. How to create and use an effective strategy.* - St. Petersburg, 2003.
60. Krolivetskiy E.N. *Technology of development strategy for socio-economic system// Postgraduate. Doctoral student. Humanities and social sciences.* - 2011. - № 1. - P. 123-126.
61. Krolivetskiy E.N., Olnev O.K. *Role of organizational-economic mechanism in rationalization of connection between technological elements of strategic management in relation to investing into innovations//Bulletin of Chuvash University.* - 2012. - № 1. - P. 392-396.
62. Kuznetsova E. *Strategic concept of sustainable economic development//Problems of management theory and practice.* - 2007. - № 6.
63. Kuzmova Y.S. *State control system of entrepreneurship in the area of high technology//Collection of scientific papers of the Baltic Academy of tourism and entrepreneurship.* - St. Petersburg.: Asterion, 2007. - P. 93-110.
64. Kurakov L.P., Riabinina E.N., Tarasova N.A., Leontiev I.A., Sergeev D.V., Varlamov A.V., Kostromin A.G. *Market-oriented education as the main*

requirements towards specialists' training in the present time//Collection of scientific articles of doctoral students, graduate students and applicants/ scientific editorship of Kurakov V.L. - Cheboksary: Chuvash University Press, 2009. - Issue 5. - P. 57-65.

65. Kurnysheva I., Lykov S., Idrisov A. Competitiveness and structural modernization problems//Economist. - 2008. - № 9.

66. Lamanov A.B. Diversification and specialization in innovative business// Innovations. - 2004. - № 3.

67. Magomedov M.N. Innovative technologies and organization management// Bulletin of Institute of Economics and Management of Saint Petersburg State University of Cinema and Television. - St. Petersburg: Saint Petersburg State University of Cinema and Television Press, 2009. - Issue. 1 (26). - P. 164-169.

68. Menshchikov V.D. Diversification - private investor into development of new technologies//Lipetsk engineer. - 2004. - № 1.

69. Methodological recommendations on assessment of efficiency of investment projects. Official edition, 2nd edition - Moscow: Ekonomika, 2000.

70. Mintzberg G., Alstrend B., J. Lempel J. Schools strategies. - St. Petersburg., 2000.

71. Modernization of economics - objective necessity/joint authorship. - Cheboksary: Chuvash. University Press, 2010.

72. Modernization of economics: quality, competitiveness, efficiency/joint authorship. - Cheboksary: Chuvash. University Press, 2010. - 386 p.

73. Mokichev S.V. Strategic management. - Kazan: Kazan University Press, 2007.

74. Muzhzhavleva T.V. Dynamics and prospects for military-technical cooperation between Russia and far-abroad countries//Finance and credit. - 2005. - № 7.

75. Naghiyev A.G. Strategy for innovative development and investment of reproduction of fixed assets. - St. Petersburg: Nestor, 2004.

76. Science in Chuvashia. 2010: collection of articles/Chuvashstat. - Cheboksary, 2010.

77. Nemchenko G.I. Diversification of production. - Blagoveshchensk, 1994.

78. Nikolaev A.V. Strategy of regional industrial innovative development// Problems of regional innovative social and economic development: materials of Russian national scientific-practical conference. - Cheboksary: Chuvash University Press, 2006.

79. Novitsky N.I., Pashuto V.P. Organization, planning and management of company. - St. Petersburg.: Statistika, 2006.

80. O'Connors J., Mokdsrmot I. Art of systemic thinking. - M.: Books, 2008.

81. Olnev D.K. *Mechanism of strategic management in relation to investing into innovations: preprint.* - St. Petersburg.: Dialogue, 2010.
82. Panesh S. *Self-competitor//Direct investment.* - 2004. - № 4.
83. Petrov A.N., Bocharov A.A. *Theoretical basics of production diversification and market economy.* - St. Petersburg., 1999.
84. Popov R.A. *Anti-crisis management.* - Moscow: Higher School, 2003.
85. Porter M. *Competitive Strategy. Method of analysis of industries and competitors.* - Moscow: Alpina Business Books, 2005.
86. *Industrial production in Chuvashia, 2010: collection of articles/Chuvashstat.* - Cheboksary, 2010.
87. Revjakin D. *Our service//Business Week Russia.* - 2005. - № 14.
88. *Rating of Russian leading companies//BusinessWeek Russia.* - 2005. - № 1.
89. *Russian industry: institutional development. Issue 1/under editorship of Dolgopyatova T.G.* - Moscow, 2002.
90. *Russian Statistical Yearbook. 2010: collection of articles/Rosstat.* - Moscow, 2010.
91. *Russian Statistical Yearbook. 2011: collection of articles/Rosstat.* - Moscow, 2011.
92. Rudyck N.B. *Structure of corporations' capital: theory and practice* - Moscow: Delo, 2004.
93. *Strategic management/under editorship of Petrov A.N.* - St. Petersburg: "Piter" publishing house, 2008.
94. Tatarinov O.V. *Economic growth strategy//Scientific and practical the magazine "Real Estate and Investments. Legal regulation".* - 2007. - № 3-4 (32-33), December. - P. 62-63.
95. Thompson A.A. *Strategic Management: concepts and situations: textbook for universities* - Moscow: INFRA-M, 2001.
96. Thompson A.A., Strickland A.J. *Strategic management.* - Moscow, 1998.
97. Udmantsev B. *Russian, regional, reactive//Military-Industrial Courier.* - 2005. - № 47.
98. Fatkhutdinov R.A. *Competitiveness: economics, strategy, management.* - Moscow: INFRA-M, 2000.
99. Hussey D. *Strategy and planning.* - St. Petersburg: "Piter" publishing house, 2001.
100. *Chuvashia in figures. 2010: collection of short articles/Chuvashstat.* - Cheboksary, 2010.
101. *Chuvashia: 1920-2010. Figures and facts: collection of articles/ Chuvashstat.* - Cheboksary, 2010.

102. Chuvash Republic and regions of Volga Federal District in figures. 2010: collection of articles/Chuvashstat. - Cheboksary, 2010.
103. Shihamedov R.E. Strategy for management of industrial production long-term development: Preprint. - St. Petersburg.: Dialogue, 2010.
104. Scheverov Y. Innovation policy problems//Military-Industrial Courier. - 2004. – № 22.
105. Economics: modernization, investment, innovations: encyclopedic dictionary/authorship of A.I. Burkin, A.L. Kurakov, A.V.Rozhdestvensky, A.V.Antonov, V.V.Bezlepkin, Y.V.Gordeev, A.G.Kostromin, V.L.Kurakov, A.V. Timiryasova, N.F.; under editorship of L.P. Kurakov. - Moscow: YuniVestMedia 2010.
106. Adizes I. Leading the Leaders, How to Enrich Your Style of Management and Handle People whose Style is Different from Yours. The Adizes Institute Publications, 2004. – P. 15
107. Ansoff I. Strategies for Diversification // Harvard Business Review. – 1957. – Vol. 35.
108. Bettis A. Diversification strategy Academy // Management Journal. – 1982. – № 25. – P. 254-264.
109. Buehner R. Strategie und Organisation. Analyse und Planung der Untemehmens diversifikation mit Fallbeispielen. – Wiesbaden, 1995.
110. Collis J, Comporate strategy. Resources and the scope of the firm. – N.Y., 1997.
111. Henry Mintzberg, Joseph B. Lampel, James Brian Quinn (Author), Sumantra Ghoshal. The Strategy Process: Concepts, Context, Cases (4th Ed.). – Prentice Hall, 2002.
112. Johnson G., Scholes K. Exploring corporate strategy. – [Prentice Hall](#), L., etc. 1997.
113. [http://www. mashportal.ru](http://www.mashportal.ru).
114. <http://www.rosinvesl.com/news>.
115. Social sphere: short dictionary-guide/authorship of A.V. Gusev, L.P. Kurakov, N.N. Drozdov and others; under editorship of L.P. Kurakov, A.Y. Egorov. – Kazan: «Poznanie» publishing house of the Institute of economics, management and law, 2014.
116. Finance and credit: dictionary-guide/authorship of L.P. Kurakov, A.G. Aksakov, V.G. Tyminsky and others – Kazan: «Poznanie» publishing house of the Institute of economics, management and law, 2014.

Author's scientific work:



Albert Gennadyevich Kostromin – Doctor of Economics. Author and co-author of more than 30 scientific papers, including two monographs, five text-books and several fundamental dictionaries. The following papers are principal among them:

- Economic growth strategy based on regional industrial production diversification. – Moscow; Cheboksary: IAEP publishing house, 2012. – 240 p.
- Economics: university textbook/ I.A. Maksimtsev, L.P. Kurakov, A.N. Petrov and others; under general editorship of V.L. Kurakov. – Moscow: Gelios ARV, 2012. – 640 p.
- Micro-economics: university textbook/L.P. Kurakov, G.E. Yakovlev, A.I. Burkin, A.G. Kostromin, A.L. Kurakov.– Moscow: IAEP publishing house, 2013. – 336 p.
- Macroeconomics: textbook / L.P. Kurakov, G.E. Yakovlev, V.L. Kurakov and others; under general editorship of L.P. Kurakov. – Saransk: Mordovian University Press, 2014. – 240 p.
- Short dictionary: management and economic safety/authorship of: N.V. Rummyantsev, E.V. Gorin, A.I. Burkin, V.L. Kurakov, A.L. Kurakov, A.G. Kostromin; under editorship of L.P. Kurakov. – Moscow: IAEP publishing house, 2013. – 832 p.
- Great Encyclopedic Dictionary of Economics and Law: integration, safety and law/authorship of L.P. Kurakov, N.V. Rummyantsev, A.I. Burkin and others; under editorship of L.P. Kurakov. – Moscow: IAEP publishing house, 2013. – 1200 p.
- Formation and management: short dictionary-guide/authorship of: L.P. Kurakov, A.V. Rozhdestvensky, V.G. Tyminsky and others; under editorship of L.P. Kurakov. – Kazan: «Poznanie» publishing house of the Institute of economics, management and law, 2014. – 448 p.
- Economics, management and law: dictionary-guide/authorship of: L.P. Kurakov, O.V. Oleinik, A.V. Rozhdestvensky and others; under

general editorship of L.P. Kurakov. – Moscow: IAEP publishing house, 2014. – 704 p.

- Ecology, economics and law: dictionary-guide/authorship of: N.N. Drozdov, A.V. Gusev, L.P. Kurakov and others; under general editorship of N.N. Drozdov, L.P. Kurakov. – Moscow: IAEP publishing house; Kazan: «Poznanie» publishing house of the Institute of economics, management and law, 2014. – 1000 p.
- Social sphere: short dictionary-guide/authorship of: A.V. Gusev, L.P. Kurakov, N.N. Drozdov and others; under editorship of L.P. Kurakov, A.Y. Egorov. – Kazan: «Poznanie» publishing house of the Institute of economics, management and law, 2014. – 432 p.
- Finance and credit: dictionary-guide/authorship of L.P. Kurakov, A.G. Aksakov, V.G. Tyminsky and others; under editorship of L.P. Kurakov, A.Y. Egorov. – Kazan: «Poznanie» publishing house of the Institute of economics, management and law, 2014. – 1104 p.



Albert G. Kostromin

Doctor of Economics. Author and co-author of more than 30 scientific papers, including two monographs, five text-books and several fundamental dictionaries.