

DETERMINED CRITERIA FOR DIVERSIFICATION IN INDUSTRIAL ENTERPRISES

Davronbek Raximov

PhD student, Fergana State University, Uzbekistan

ABSTRACT: The article examines the established criteria for industrial diversification, highlights various forms of diversification of companies, develops scientific proposals and practical recommendations for the development of processes of diversification of industrial production.

KEYWORDS: industry, diversification, criteria, enterprise liquidity, production, quantification, synergistic efficiency, company.

INTRODUCTION: The main reason for diversification is the process of globalization of production, which is associated with the effect of saving from the scale of production, ie synergistic effect.

The following reasons for diversification of production are identified:

- reducing the level of risk, which allows you to stabilize the financial situation for a certain period of time;
- as the best way to invest capital;
- business expansion due to synergistic effect.

Incentives to diversify production are shown in Figure 1.

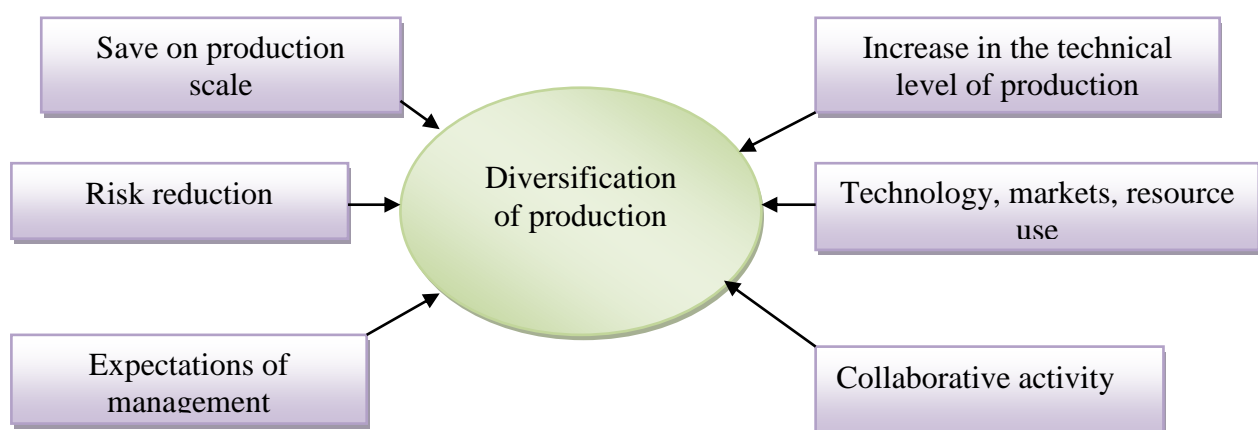


Figure 1. Incentives to diversify companies

- the exchange is specific to the existing “product-market” combination and has lost its vitality due to “spiritual” obsolescence or stiff competition;
- Applying the supplement to the existing "product-market" combination, the increase in capacity will reach the stage of maturity, if it does not justify the use of permissible resources and tools;
- insurance - to compensate for conditions or a decline or possible oversupply of the market. This is done by investing and distributing risk to all sectors of production.

These diversification incentives are able to apply separately and, depending on the specific situation, their different combinations with each other take place. Therefore, the choice of one or another type of diversification by the company should be well-founded and carefully planned.

According to Aronov, the driving force behind the diversification of enterprises are the following factors: the goals of the company's management, the dynamics of the business environment and the resource potential of the enterprise. They define the criteria for diversification of the enterprise:

- attractiveness criteria;
- "entrance costs" criterion;
- criterion of additional benefits.

Criteria of attractiveness. He argues that the sector chosen for diversification needs to be attractive in terms of high returns on invested capital. Long-term profitability can serve as an indicator of attractiveness. It is also important for company owners to consider creating added value for shareholders. This means that in order to increase the profitability of the shares, the company has to go through the business areas that are better to operate in the general management of the company than to operate as an independent enterprise.

Criteria for "entrance costs". The cost of entering a new area of business should not impair the liquidity of the enterprise, thereby reducing its sustainability. Considering this problem in the model of "five forces of competition", M. Porter said that the risk of entry for new businesses entering attractive networks is always very high, as if it means buying an existing business or creating a new one from scratch.

An additional benefit criterion. Access to the new network will increase the sustainability of the enterprise, the new type of activity will lead to supporting the competitive advantage of the enterprise. If the company's activities meet these criteria, diversification is a priority strategic decision for enterprise management.

An important reason for enterprise diversification is to justify the fact that the prospects of the existing type of activity will not allow the company to achieve the desired level of labor productivity in the future. Sales growth, revenue and return on invested capital are the criteria for the level of labor

productivity for a competitive company. Therefore, a reduction in the order portfolio or incomplete employment of production capacity may be the first signs of the need for diversification.

Research on the theory and practice of diversification K. Endryus, M. Gort, E. Esinara and S. It started with Berry's work. In this case, the object of research is diversification, which identifies opportunities to improve the structure of the enterprise, aimed at expanding the production industries, names and sales markets. For example, K. Andrews understood diversification as a change in the names of goods produced by individual enterprises and associations, an expansion in general terms. M. Gort understood diversification as the simultaneous servicing of several markets by companies. When Berry said diversification, he was referring to the growing number of industries in which the company operates. E. Esinara is the first to propose a radically different definition of diversification, showing its relationship to the level of risk as a strategy to reduce the risk of market activity in adverse conditions and increase the level of financial stability of the company.

CONCLUSION. In conclusion, the study of various forms of diversification of companies, their quantitative assessment has contributed to the emergence of strategic management theory as a new science.

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