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STRATEGIES TO DIVERSIFY INTERNATIONAL ACTIVITY OF UKRAINIAN METALLURGICAL ENTERPRISES

The article is focused on researching and developing strategies for the diversification of international activities for enterprises in the Ukrainian metallurgical industry. It is emphasized that the metallurgical industry is of strategic importance to the economy of Ukraine, as it is a net exporter, generates numerous job opportunities, contributes significantly to the country's GDP, and attracts foreign capital investments. Various international diversification strategies are proposed, including diversification of sales geography, diversification of production, and diversification of the product portfolio. A comparative analysis is conducted to determine the advantages and disadvantages of each strategy, to identify the most relevant approach for specific enterprises. The comparative analysis revealed that diversification of international activity is the most effective strategy for minimizing risks and maintaining the profitability of companies. Three diversification strategies for the international activities of Ukrainian metallurgical enterprises are proposed, which include diversification of sales geography, diversification of production, and diversification of the product portfolio. Recommendations and measures for implementing each of the proposed international diversification strategies are presented. It is determined that, given the current war conditions, the priorities for metallurgical enterprises in developing strategies for international activities are the optimization of supply chains, including the creation of joint ventures with neighboring countries, providing conditions for the creation of high-value-added products, improving production capacities, and taking into account the factor of decarbonization to reduce the impact of the Carbon border adjustment payment.

Keywords: metallurgical industry, strategy of diversification of sales geography, diversification of production, diversification of product portfolio.

INTRODUCTION. The economic growth of countries historically has been determined by the development of basic strategic industries and their ability to compete in international markets. One such industry is the metallurgical industry, which contributes to 10.7 % of the world's GDP and provides more than 210 million jobs.

Despite being ranked 12th among the top steel-producing countries in 2017, Ukraine holds a significant position in the industry. The share of metallurgical products in Ukraine's total commodity exports is 22.8 %, generating more than USD 13 billion in export revenue [1]. The metallurgical industry provides more than 250,000 jobs in Ukraine and is a strategically important sector.

The last decade has witnessed new trends in the development of the metallurgical industry, such as:

- the concentration of production;
- production exceeding consumption;
- change in geographical structure;
- formation of new world production centers led by China;
- the increase of production in the Arab countries;
- technological advancements;
- intensified global competition.

These trends necessitate effective strategies for the development of metallurgical enterprises on both domestic and international markets. Developing effective mechanisms to implement these strategies requires a theoretical understanding of international development strategies.

The aim of this article is to develop diversification strategies for Ukrainian metallurgical enterprises in international markets to minimize risks and maintain profitability.

LITERATURE REVIEW. Numerous domestic and foreign scholars, including A. Booz, O. Hrabovenko, K. Nahda, R. Prebish, R. Rumpelt, H. Singer, and A. Starostina, have contributed significantly to the study of the formation of strategies for the development of international activity. Foreign scholars such as

H. Markowitz, Redding, R. Hausmann, K. Lederman, P. Brenton, R. Newfarmer, P. Valkenhorst, and others have emphasized diversification in enterprise activities. Scholars such as P. Krugman, T. Kwon, S. Bae, N. Tien, D. Bhagwati, A. Thompson, J. Strickland, J. Grossman, I. Helpman, and M. Finger have studied foreign trade policy, problems of state regulation in international trade, and foreign trade strategies of industrial enterprises. More detailed research is required on the criteria and factors for determining enterprise development strategies on international markets and the external risk assessment system for developing possible enterprise development trajectories.

METHODOLOGY. The article uses various research methods, including analysis of domestic and foreign scientific literature and statistical data sources, qualitative and quantitative analysis of collected data, systematization of data to form conclusions, creation of matrices and comparative tables using graphic methods, expert surveys and data analysis using statistical methods, and generalization methods to form conclusions and prospects for further development in the topic of the article.

RESULTS. The concept of the "diversification strategy" is interdisciplinary and is used in scientific works on strategic management, international relations, international finance, marketing, and organization theory. Analyzing the approaches of various authors (R. Rumpelt [2], R. Wrigley [3], R. Pitts [4], V. Ramanujam, P. Varadaraja [5], A. Buz and H. Buz [6], I. Ansoff [7], A. Starostina [8]) to determine the essence and content of diversification strategies of international activities of industrial enterprises, we formulated an author's category: the strategy of diversification of international activity is a long-term plan for the development of the entrepreneurial activity. It is characterized by an optimal set of international markets, types of economic activity, and product nomenclature of a business entity, and aimed at reducing the total volume of risks, increasing profitability, and adaptability to changes in the international business environment.

Clarifying the mechanisms for implementing diversification strategies requires determining the objects to be diversified. A. Thompson, J. Strickland [9] systematized the objects of diversification into five directions:

- geographical coverage (access to territorially new markets);
- product (research and development, merger, partnership);

- organization (restructuring of the company's infrastructure, logistics, service, marketing, management approaches, and technologies);
- consumers (diversification due to new segments, industries);
- culture (restructuring of corporate culture, values, internal communications system).

The objects of diversification proposed for industrial enterprises are systematized in Fig. 1.

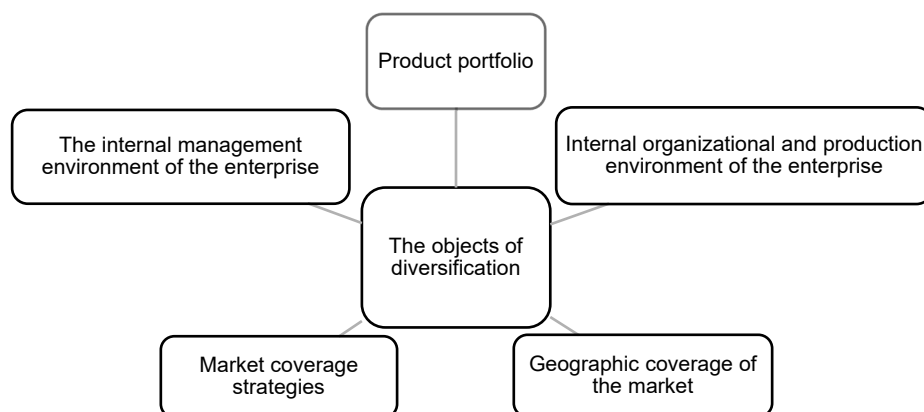


Fig. 1. Objects of industrial enterprises diversification

Source: compiled by the authors on the basis of [5, 6].

Diversification of these objects comes down to the choice of three directions – country, industry, company – partner.

In the scientific literature, there is also a wide range of definitions of the purpose of diversification strategies. Such authors as T. Somkina, R. Dymenko, T. Kapeliushna [10], L. Wrigley [3], A.O. Starostina [8], A. Sembenelli, S. Sulastri, M. Adam, I. Isnurhadi [11] in their works note the following goals of international diversification strategies:

- increasing profitability on the national and international markets;
- optimization of profits; reducing the risks of business activity;
- increasing competitiveness;
- facilitation of the capital transfer process;
- balancing the positive effect of scale and the negative effect of the organizational increase of the company;
- overcoming the limiting effect of weak resource provision;
- reduction of dependence on suppliers of raw materials;
- reduction of dependence on one product group;
- use of the synergy effect when covering other types of activities or categories of goods within the current type of economic activity.

According to the authors of the article, the diversification strategy for Ukrainian enterprises primarily aims to minimize risks and maximize positive effects. By analyzing the business environment, assessing the risks of international activity in the metallurgical industry, and based on the results of an expert survey, it was determined that the primary task in modern conditions for Ukrainian enterprises

in the metallurgical industry is to minimize risks and maintain the level of profitability of the company. This conclusion is key when developing a strategy for the diversification of international activities and diversification options for enterprises in the metallurgical industry of Ukraine.

Thus, we developed three variants of diversification strategies for enterprises in the metallurgical industry on international markets:

1. Diversification of sales geography. The essence of this strategy is to change the portfolio of sales countries for enterprises in the metallurgical industry of Ukraine. The key goal when changing the shares of sales in the portfolio of companies should be to reduce the level of risk of the political and legal factors of protectionism and the associated risk of introducing trade barriers.

2. Diversification of production. The strategy of diversification of production is aimed at reducing the risk level of the decarbonization factor and introducing the fiscal instrument CBA (Carbon border adjustment). This is done by changing the structure of the use of energy resources in production, and developing investment projects for the modernization of production to reduce CO₂ emissions into the atmosphere. This will minimize risks and increase competitiveness in the long term.

3. Diversification of the product portfolio. The key in this strategy is to increase the share of production and sale of finished products with a higher level of added value. This strategy will have the effect of reducing the level of risk of dependence on structural market fluctuations and the volatility of the price level of raw materials.

The proposed diversification strategies have their advantages and disadvantages, which were analyzed in Table 1.

Table 1. Comparative analysis of diversification strategies of international activities of enterprises of the metallurgical industry of Ukraine

Category	Diversification of sales geography	Diversification of production	Diversification of the product portfolio
The purpose of the strategy	Reducing the risk of protectionism and the introduction of trade barriers	Reducing the level of risk of decarbonization and CBA; increasing competitiveness	Increasing the level of profitability and reducing the level of dependence on market fluctuations and volatility of raw materials
Type of diversification	Sales	Technological	Commodity
Diversification method	Distribution	Internal development	Conversion and absorption
Strategy implementation measures	Risk factor assessment for the introduction of trade duties by countries of export of Ukrainian metallurgical enterprises. Determination of the most promising areas of development of the sales geography and the riskiest sales areas	Analysis of the production chain with a step-by-step assessment of CO2 emissions per ton of products. Diversification of the structure of the energy resources uses for production. Development of an investment project to modernize production to minimize CO2 emissions	Analysis and assessment of bottlenecks in the production business chain of finished products to determine areas of development. Development of an investment project for the construction/purchase of a rolling mill for the production of finished products based on our semi-finished products
Advantages of diversification strategy	Reducing the level of the political and legal risk factors. Getting the opportunity to form long-term plans for cooperation and strategic partnership	Technological modernization of the production process. Reduction of CO2 emissions per ton of manufactured steel. Increasing competitiveness in international markets. Obtaining social and image-positive effects	Increasing the share of finished products with high added value. Circumvention of import tariffs for raw materials and semi-finished products on international markets. Increasing production capacity
Disadvantages of diversification strategy	A decrease in the level of profitability of the client portfolio. The risk of insufficient compensation of new sales markets from changes in the geography of the presence	High volumes of capital investments and significant associated financial risks. Lack of instruments of partial state financing. Reduction of production volumes at the time of technological modernization. Long payback period	Significant volumes of investment financing. Risk of market oversaturation. High payback period

Source: compiled by the authors on the basis of [13–17].

Each of the proposed strategies for the diversification of international activities can be applied both separately and in combination. For example, the strategy of sales geography diversification has low investment and financial costs and can be implemented in conjunction with the diversification of production or product portfolio. However, this strategy also carries the risk of short-term profitability of the sales portfolio.

When comparing the strategies of diversification of production and product portfolio, it becomes clear that both require significant financial investments and capital investments, making their simultaneous implementation challenging.

Therefore, the developed strategies for the diversification of international activities must be considered in conjunction with the internal factors and capabilities of each enterprise. The developed strategies for diversification of international activities were formed for the metallurgical industry of Ukraine as a whole, and recommendations and measures for the implementation of the developed strategies have been formed for each proposed strategy.

The strategy of sales geography diversification is aimed at minimizing the risk of protectionism and the introduction of trade barriers. To effectively implement this strategy, an analysis comparing indicators such as the number of active trade barriers, the volume of exports of metallurgical products of Ukraine by country, and the growth rates of these export volumes is proposed. This will enable the assessment and identification of export countries with the highest level of risk and export countries with the greatest prospects and potential for development.

To better assess and analyze these indicators, a matrix for assessing the attractiveness of partner countries was

developed, as shown in Fig. 2. The statistical data of 2019 were used as the basis for the assessment of risk level, as 2020 may reflect a non-standard picture due to the pandemic.

The matrix provides data on the volume of exports of metallurgical products by Ukraine in millions of dollars along the X axis, while the Y axis shows the rate of export volume growth in 2019 relative to 2018. The diameter of the circle is determined by the number of existing non-tariff trade barriers concerning trade in metallurgical products.

The matrix is divided into four quadrants (A, B, C, and D), each with its characteristics within the coordinate axis. Quadrant A describes countries with high potential and development but lower-than-average export volumes. Quadrant B describes countries with high growth rates and high export volumes. Quadrant C identifies countries with high export volumes but with negative growth rates. Quadrant D identifies countries with low export volumes and negative export growth rates.

However, for the qualitative determination of promising sales markets, the number of active non-tariff trade barriers in relation to trade in metallurgical products (reflected by the diameter of the circle in the matrix) must also be taken into account. Therefore, the analysis of the matrix should be multifactorial.

According to the data presented, the export of metallurgical products to China can be classified as having a medium level of risk. This is because China plays a significant role in the international markets of metallurgical products and actively applies non-tariff trade restrictions, which are often initiated in response to barriers imposed by other countries.

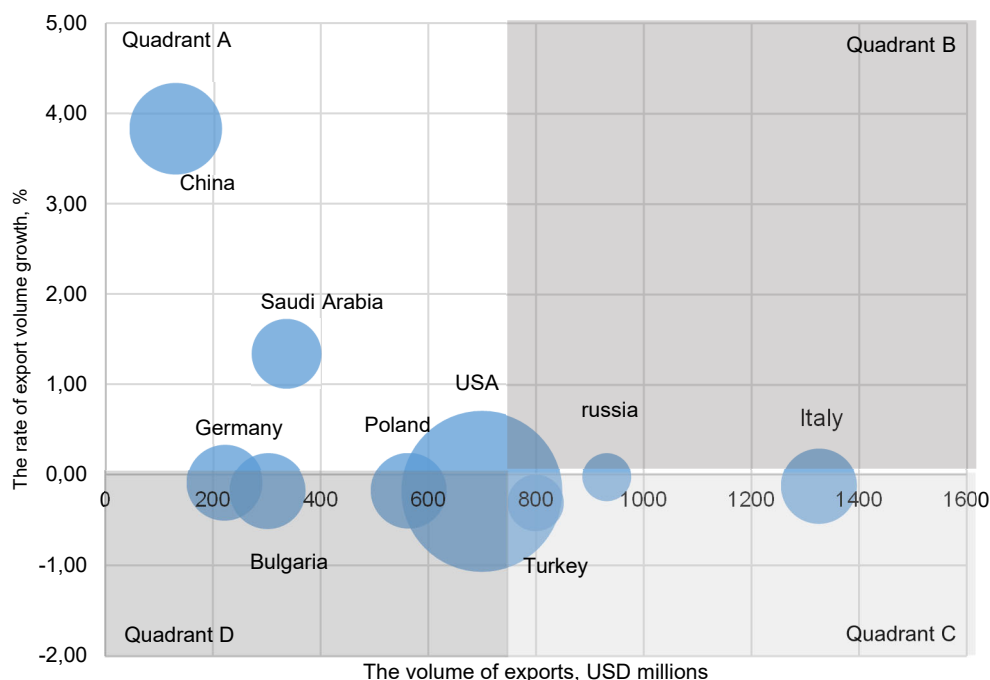


Fig. 2. Matrix for assessing the attractiveness of international partner countries for Ukrainian metallurgical enterprises

Source: developed by the authors on the basis of [18].

European countries such as Italy, Poland, Bulgaria, and Germany can also be classified as having a medium level of risk. This is because the number of active trade barriers is relatively small (104 active trade restrictions at the end of 2019 concerning metallurgical products). Additionally, the volume of exports of metallurgical products to EU countries is significantly higher compared to other regions of international trade (the total share of exports of metallurgical products from Ukraine to Italy, Poland, Bulgaria, and Germany is 24 % of total exports). On the other hand, in 2023, the European Commission lifted anti-dumping duties on imports of hot-rolled flat steel (HRFS) from Ukraine. On February 17, 2023, the EC ended its investigation into the expiration of anti-dumping measures on the import of Ukrainian HRFS. This happened after the European Steel Association (EUROFER) withdrew its request on the grounds that the EU industry is unlikely to suffer from this import given the current state of the Ukrainian steel industry. Ukraine also expects progress in integrating into the EU internal market and extending duty-free trade with the EU for another two years until the end of 2024. These steps and the further deepening of trade relations are vital for Ukraine's ability to withstand Russian aggression.

The riskiest export markets according to this matrix are the USA. In the case of the USA, the significant number of active trade barriers (466 barriers at the end of 2019) related to the metallurgical industry plays a significant role in increasing the risk level. However, in 2023 the United States will temporarily suspend tariffs on Ukrainian metallurgical products for one year. Despite being devastated by war, Ukraine's metallurgical industry provides 600,000 jobs to Ukrainians and is a pillar of the country's economy and its long-term interests in national security [1].

The most promising markets for the development of international trade in metallurgical products are Italy and Saudi Arabia. The prospects for the development of trade

with Italy are determined by the significant level of consumption and the low level of trade barriers concerning Ukrainian metallurgical products. Additionally, Italy serves as a logistically convenient trading hub for sales throughout Europe and North Africa. Saudi Arabia is a promising market for the development of international activities for enterprises of the metallurgical industry of Ukraine, as this market has high growth rates of construction and development of the oil and gas industry.

Thus, this matrix provides an effective tool for assessing the risks and prospects for the development of international activities of Ukrainian enterprises. It is an effective measure for implementing the strategy of diversifying the geography of sales by determining the most promising and least risky sales directions based on the introduction of trade barriers in international activities. It should be noted that this tool should be one of the measures used to analyze partner countries since this matrix is intended precisely to minimize the risk factor of introducing trade barriers.

The strategy of diversification of production involves the modernization of existing production technology or the creation of updated production through the development of an investment project. This strategy is one of the most capital-intensive among those proposed [19, 20]. The global solution to the problem of a significant CO₂ footprint in the production of metallurgical products involves either the modernization of blast furnaces, the transition from blast furnaces in steelmaking to electric steelmaking furnaces, or the construction of new coke batteries for steelmaking. Both scenarios of the proposed production diversification strategy are considered and evaluated in the third chapter of the study. Regarding the implementation of the production strategy to reduce the risk level of the decarbonization factor, some recommendations have been developed for consideration and application (Fig. 3).

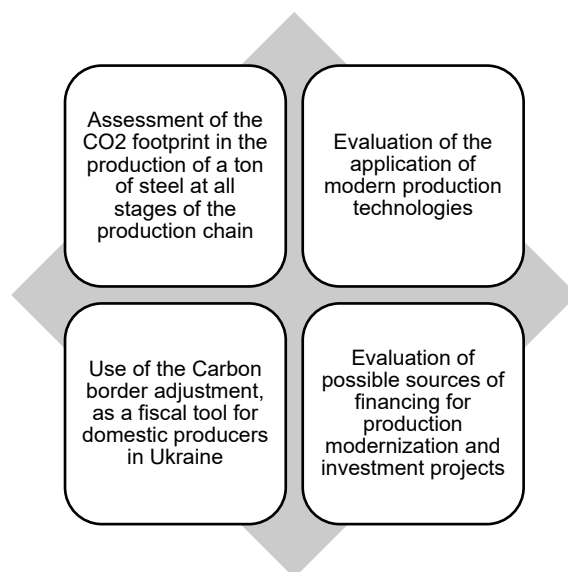


Fig. 3. Ways of reduction of the decarbonization risk factor according to the production diversification strategy

Source: developed by the authors.

1. The evaluation of modern production technologies is crucial for long-term sustainability. Hydrogen technologies offer promising prospects in Ukraine, given the country's potential for producing green hydrogen from renewable energy sources and nuclear power plants. However, before introducing hydrogen technologies, the government should assess the hydrogen transportation infrastructure and provide incentives to develop the technology [22, 23].

2. Carbon capture, storage, and utilization (CCS/CCU) technologies can ensure a transition to carbon neutrality but are costlier than other alternatives (3-4 times more expensive) and should be considered after taking all other measures [24].

3. Electric steel production is an efficient and promising direction, with low production costs and high-quality products. However, currently, only one million tons of steel are produced electrically.

4. Possible sources of financing for production modernization and investment projects include green bonds and private investments [25].

5. In the metallurgical industry, private investment is more relevant since significant investment is required. The government should provide environmental tax incentives and partially support the financing received from the environmental tax. Green bond issuance can lower the cost of capital, which typically has lower interest rates since it is funded by other institutional investors seeking a balance between impact and return.

6. Active involvement of the government of Ukraine is necessary to support metallurgical enterprises in relation to the use of CBA (Carbon border adjustment) as a fiscal tool for domestic producers.

CONCLUSIONS AND DISCUSSION. This article presents an analysis of the development strategies for Ukrainian metallurgical enterprises and the development of diversification strategies in international markets. Based on this analysis, the following generalizations and conclusions can be made:

Firstly, the metallurgical industry of Ukraine is a net exporter and highly concentrated within Ukraine due to the

high capital intensity of the industry and the presence of vertical integration. The key export product of the metallurgical industry of Ukraine is ferrous metals, which are raw materials or semi-finished products with a low level of added value. The EU countries are the primary export destinations for metallurgical products.

At the end of 2021, the shares of sales for the export and domestic market were 82 % and 18 % respectively. Since February 24, sales in Ukraine have significantly decreased due to the war, which has negatively affected both the oil and gas sector and the construction sector, as the entire southeastern part of the country is engulfed in the war. However, NAK "Naftogaz Ukraine" enterprises in other regions continue to operate, and such producers as Interpipe continue to cooperate with them, supplying them with pipes. In addition, "Ukrzaliznytsia" and some private enterprises continue to repair wagons and accordingly order wheels.

Secondly, among the main tasks of Ukrainian metallurgical enterprises is the optimization of logistics. After Russian ships blocked most of Ukraine's seaports, companies are building extremely complex logistics routes. Manufacturers have started exporting products to Europe by road and rail with subsequent transshipment through ports. However, a new problem has emerged – the number of trucking companies has decreased. After February 24, no European company provided its trucks to export products from Dnipro or Nikopol. At the same time, Ukrainian carriers increased their prices for their services. Moreover, all Ukrainian exporters directed their transport flows through the nearest ports in Romania, which were unable to handle the entire volume of new cargo. For example, Romanians lacked experience in handling pipes and railway wheels. However, in 2023, a new transportation system began to form gradually. The transportation cost increased by 2.5–3.5 times from the Ukrainian plant to the customer, with the figures varying widely depending on different transport schemes.

Thirdly, based on the analysis of global trends in the international metallurgical industry, the external and internal business environment, and the assessment of the risks of international activity, three strategies for diversifying

international activity were proposed. These include diversification of sales geography, diversification of production, and diversification of the product portfolio.

The diversification of sales geography aims to minimize the level of protectionism risk and the introduction of trade barriers concerning Ukrainian metallurgical enterprises. It is proposed to restructure the portfolio of partner countries of international activity according to the factor of presence and importance of the appropriate risk level. Since 2014, Ukrainian manufacturers have actively diversified their sales markets, with the main ones now being the European Union, the Middle East, and the United States. Ukraine supplies products to 80 countries around the world, and to all major markets for metal consumption. New products are also being developed for customers, as demand for them depends not on the war in Ukraine, but on trends in the development of the oil and gas, construction, and railway industries worldwide.

The essence of the production diversification strategy involves the modernization of existing production technology or the creation of updated production through the development of an investment project. This strategy allows for minimizing the risks of the decarbonization factor and the CBA as a fiscal tool in the international activities of Ukrainian metallurgical enterprises. Measures and recommendations for effective implementation have been developed for this strategy. Accordingly, an assessment of the qualitative effects of the implementation of the developed strategy was carried out, which includes a decrease in the level of CO₂ emissions into the atmosphere, creating a positive image of the metallurgical industry of Ukraine on international markets, an increase in production efficiency, and a decrease in the cost of a manufactured ton of steel.

After the war, the issue of fundamental modernization of production facilities will be acute. Without this, Ukrainian metallurgy will have a problematic future. Europe will not make exceptions for our products if Ukraine does not modernize production under environmental requirements.

Diversification of the product portfolio aims to increase the level of profitability of Ukrainian metallurgical enterprises by increasing the share of sales of goods with a higher added value. The implementation of this strategy involves the purchase of a production rolling mill in the territory of northern Italy with existing capacities and technologies, the processing of semi-finished products with the creation of added value.

The remaining plants in the territories controlled by Ukraine are capable of producing an ordinary, narrow range of metal products using outdated technologies, that is, diversification is poorly developed. For example, "Zaporizhstal" produces rolled and sheet steel, and "ArcelorMittal Kryvyi Rih" produces special products. Interpipe is more confident because its production uses more modern technologies. For example, until 2012, steel production was carried out using an outdated, environmentally dirty Martin method. However, the company invested \$1 billion in a modern electric steelmaking complex "Interpipe Steel".

Further research on this topic will be devoted to the evaluation of the effectiveness of the implementation of international diversification strategies for Ukrainian metallurgical enterprises. The attractiveness of the developed strategy for an enterprise or investor is determined using an assessment of effects. It is also determined how fast and effectively this strategy solves the key task of the enterprise and how effectively it helps the enterprise realize itself as investors or owners see it. Therefore, the stage of assessing

the effects of the implementation of international diversification strategies for Ukrainian metallurgical enterprises is extremely important and weighty and will be presented in the next research papers.

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СТРАТЕГІЇ ДИВЕРСИФІКАЦІЇ МІЖНАРОДНОЇ ДІЯЛЬНОСТІ ПІДПРИЄМСТВ УКРАЇНСЬКОЇ МЕТАЛУРГІЙНОЇ ГАЛУЗІ

Присвячено дослідженню та розробці стратегій диверсифікації міжнародної діяльності підприємств української металургійної галузі. Зазначено, що для економіки України металургійна галузь є стратегічно важливою, оскільки є галуззю нетто-експортером, створює велику кількість робочих місць, має значну частку у формуванні ВВП країни та має інвестиційну привабливість для зовнішніх капіталів. Проведений порівняльний аналіз стратегій розвитку для промислових підприємств на міжнародних ринках дозволив визначити стратегію диверсифікації міжнародної діяльності як найбільш ефективну в забезпеченні мінімізації ризиків та збереженні рівня прибутковості компаній. Сформовано три стратегії диверсифікації міжнародної діяльності металургійних підприємств України. До них належать диверсифікації географії збуту, диверсифікація виробництва та диверсифікація продуктового портфеля. Для кожної із запропонованих стратегій диверсифікації міжнародної діяльності розроблено рекомендації та заходи реалізації розроблених стратегій.

Ключові слова: металургійна галузь, стратегія диверсифікації географії збуту, диверсифікація виробництва, диверсифікація продуктового портфеля.

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