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**Roman FEDOROVYCH<sup>1</sup>; Vira SEREDYNSKA<sup>2</sup>; Olga ZAHORODNA<sup>2</sup>**

**<sup>1</sup>Ternopil Ivan Puluj National Technical University, Ternopil, Ukraine**

**<sup>2</sup>Ternopil National Economic University, Ternopil, Ukraine**

## **ANALYTICAL APPROACHES TO STRATEGIC BUSINESS MANAGEMENT**

***Summary.** The article explains scientific and theoretical approaches to determining the value of the enterprise in the system of value-based management. The article examines the necessity of using internal fundamental value of the company's potential as a criterion for selecting alternative strategies as well as defines parameters and factors of its growth. The article specifies the meaning of internal fundamental value of the company's potential in the formation of the business market value. The development of the methodological tools of strategic economic efficiency evaluation is critically analyzed. Innovative methods of strategic management are systematized as well as their role in the formation of internal fundamental value of the company's potential is detailed, methods aimed at evaluating the cost and methods that lead to its creation are discussed. The article explains the priority of using the balance management concept in order to improve manageability of the company and its internal fundamental value. Moreover, the relationship between strategic management and key performance indicators are shown as well as reasonable requirements for its formation.*

***Key words:** strategy, strategic management, strategic goals, strategic objectives, key performance indicators, balanced management.*

**Formulation of the problem.** The study of business practices of domestic enterprises shows that nowadays strategic management has been neglected, and its used mostly to resolved situational problems associated with the acceleration of turnover, covering deficits, cash flow optimization, cost reduction, etc. However, these figures are unlikely to be used to evaluate the effectiveness of strategic management as they do not take into account the risks and requirements of existing investors with regards to the profitability of their investments, neither they make it impossible to understand how to develop business and achieve successful results in the long run; how to attract investment in new projects and develop, evaluate alternative strategy; how to increase the efficiency of business units and form a diverse company. In addition, the practice of strategic management innovative tools that are adequate to the dynamic changes in the environment are underused. This necessitates the formation of a system that

would allow management to connect past experience with the latest achievements in the field of management and ensure a high level of efficiency of domestic enterprises. Modern concept of value-based management, the cornerstone of which is the growth of value, can guarantee qualitative growth of the enterprise. According to which, the management team's criteria of successful operation should not only be an increase in physical production volumes, revenue growth, but the growth of value of the enterprise, which will lead to improving the welfare of persons, which the company attributed to effective functioning and development. As the result of this, traditional strategic management technologies with orientation to maximize profits in the current development of the economy lose their relevance. In connection to this, it is necessary to develop adequate methodological tools that would allow by taking into account the basic principles of value-based management, not only determine the value of the company, but also look for trends and factors of its growth.

**Analysis of recent research and publications.** Theoretical and practical aspects of strategic management were studied by many foreign and domestic scientists. Among them are B. Styuart and David Stern [10, 11], T. Copeland, T. Koller and D. Murin [1], R. Kaplan, D. Norton [2], A. Rappaport [9], E.A. Yakovleva [8], T. Momot [3], A.M. Sokhatska, H.Y. Ostrowska [5], G. Yanchuk [6], I.J. Yaremko [7] and others. The studies obtained good results, but given the importance and complexity of the problem, and it remains the subject of further research. Value-oriented management approach in Western practice has been successfully used for decades, although Ukrainian business community has not just started to use it. There are a number of issues requiring detailed study and adaptation to modern domestic realities. The article aims to systematize all strategic innovation management tools and determine their role in enhancing enterprise value.

**Research outcome.** As part of value-oriented management the object is „enterprise value“. However, researchers have differently interpreted the concept, linking it with a market capitalization, market value of equity, etc. In Soviet literature often by the cost of the enterprise understand its market value. In order to determine the market value of the companies different methodological approaches are used that are envisaged by three standards of evaluation: asset approach, market approach and income approach. Each of these approaches involves a set of methods and evaluation procedures.

In the 90s managers start to use the system that applies various financial indicators that in their core are derived from the income approach of business evaluation. Future income are embodied in the indicators that are consequent from the cash flow, profits, dividends, economic value added (EVA – Economic Value Added); market value added (MVA – Market value added); the added value of the share capital (SVA – Shareholder Value Added); cash value added (CVA – Cash Value Added), the rate of return on investment based on cash flow (CFROI – Cash Flow Return on Investment), total equity returns (TSR – Total Shareholder Return).

The study of the nature of these indicators suggests that virtually all of them are aimed at measuring the value created, although they do not allow understanding and managing the processes that are aimed at creating value. An exception is the indicator of economic value added. Founders Bennett Stewart and Joel Stern had developed on its basis a management concept – EVA®-based management [10], which forms the sole basis for modelling, tracking, assessment of economic value added.

In order to increase efficiency, it is necessary to study both internal and external environment of the enterprise aiming on identification of relationships and expansion of strategic development alternatives. Internal environment is a vital component of its operation and therefore a source of economic growth. It is characterized by the sub-system activities (business processes) such as: production, marketing, HR, finance, management, scientific research, etc. The main opportunities of value creation are in them.

The authors believe the interaction of business processes with external customers can

be carried out through the „value chain“, which reflects the interconnected set of business processes that recreates the process of creating added value ending with the sale of finished products to the final consumer. Otherwise, such „chain“ does not create but only destroy value.

In a competitive environment, the company achieves its goals with optimal performance and interactions of all functional areas, which is reflected in increasing sales, reducing costs, optimizing capital structure, raising product quality, gaining relevant market share, forming mutually beneficial relationships with suppliers, etc. All these conditions (factors) value creation provide competitive advantage. Using financial indicators the market evaluates result of the value drivers. This explains the desire of enterprises to increase the attractiveness of their financial reporting and cost control key performance indicators.

The external environment is changing all the time. The changes do not depend on the efforts of employees; however, not taking into account its impact in developing promising areas of expansion can result in catastrophic losses for the company. Irrelevant nature of environmental factors causes contraction or expansion of business, and may lead to changes in its internal environment.

In order to generate strategies, enterprises needs to find „weaknesses“ and to outline future competitive advantage in the industry through the use of SNW-analysis, resource analysis, the exploration of market opportunities and threats to businesses using the Porter’s Five Forces model as it is useful to isolate the impact of political, economic, social, technological and environmental factors REST-based analysis, use benchmarking, SWOT-analysis, operations research methods theory, economic heuristics etc.

Current economic conditions indicate that the implementation of business management policies in order to increase its value, a comprehensive system of strategic objectives and balanced strategic management must be put in place.

The research of evolution of balance models of effective management evaluation showed [4] that the idea of these models was implemented by many scientists, including G. Malo (Onboard board – tableau de bord); J. Weber (selective system performance); R. Hyubert (universal system of performance indicators); K. Mc-Naira, R.K. Lynch and Cross (Pyramid of the company), L. Meysel (model strategy maps) R. Kaplan and D. Norton (Balanced Scorecard – BSC) and others.

It should be noted that the concept of balanced management is to coordinate strategic objectives with tactical actions, external evaluation of the internal use of financial and non-financial indicators, to identify cause-effect relationships between performance indicators and factors of their formation, to detail strategic objectives to specific tasks and bring them to the relevant departments in the form of certain indicators, to implement the strategy by building an effective motivational mechanism.

Strategic management involves the formation of a system of strategic goals, which is short statements describing specific actions, the implementation of which allows implementation of basic and functional strategies (investment, innovation, marketing, etc.). After defining the strategic goals and objectives for the whole enterprise, they are transformed into tactical and operational objectives for individual business processes, business units, which are detailed later in individual plans of each employee.

Individual plans are made by directors of separate departments (owners of business processes) in order to achieve concrete results directly in the workplace. Individual plans should help employees understand their role in accomplishing the strategic objectives of the company and individual business process. These plans will also include incentive reward schemes and personal development. This allows setting personal responsibility for the achievement of a specified level.

Achieving strategic goals and strategic tasks carried out by measurement of indicators that will characterize the level of their performance. Thus, strategic management, focused on

results, helps to transform specific activities and strategies into a fairly complete set of key performance indicators. It should be noted that the system of key performance indicators should meet the following characteristics:

- to be adequate and dynamic, hence to be relevant to real business processes, focus on their management and improvement, be show the dynamics of change;
- to be relevant, which mean to influence the condition of the management in order to bring it to the desired level;
- to be efficient – the cost of obtaining information for calculating the rate must be lower than the result of its use;
- to be consistent, ie a rate growth should not come at the expense of another;
- to be clear – unambiguous interpretation and uniform application of the algorithm calculation;
- to have connection to strategy that constitutes the basis for strategic direction of the company;
- to be balanced, which requires the optimal combination of quantitative, qualitative factors, productive, financial and non-financial performance indicators.

Strategic management system should include not only the formation of strategic goals, key performance indicators (target, actually), but also develop the necessary measures for their implementation. Every measure is necessary to ensure the human, financial and technical resources are directed to achieve target level for each specific indicator. Indicators allow determining the level of goals achievement and success of value-focused strategy. If the index is below its target value, it indicates the presence of factors that hinder or counteract the achievement of the set strategic goals. This fact shows missed opportunities of the enterprise and requires corrective action.

The process of goals formation, key performance indicators and their assessment should be done regularly reflecting changes, meeting internal and external environment of the enterprise.

It is necessary to point out that the set of performance indicators should not be created solely by managers but collectively – through interviews and brainstorming with all employees. This will allow a better understanding of tasks and identify best ways to achieve them.

The use of strategic management requires proper adjustment of the enterprise communication channels that would allow staff and top managers to quickly share information. This will create trust relationships, generating conditions for the timely implementation of corrective and preventive measures.

Strategic management system must focus on the harmonization of all company's employees interests in accordance with the strategy. To build an effective motivational mechanism for the company that would encourage employees to strive to achieve strategic objectives, it is necessary to ensure that each employee shared culture and values of the company, concerned about its problems.

It is obvious, individual goals of each employee should coincide with the objectives of the enterprise. Motivation system in the company should be structured as follows: trying to earn more workers contribute to enterprise development and by developing the company they have the opportunity to earn even more.

In this case it is appropriate to create a set of achievement indicator evaluation scale for individual performance employees, making it possible to establish the remuneration and assess the consequences of their failure. These indicators are used not only for measuring results, reporting, differentiation of achievements, but also to analyse the improvement opportunities and business development.

This integrated approach provides aggregate formation effective methods and tools allowing implementing the development strategy of the enterprises based on the growth of its value.

**Conclusions.** The use of value-based management creates requirements for applying the necessary methodological tools, which involves the use of certain groups of methods. Some of them are aimed at evaluation, others – the formation of value. The first group of methods is the most processed and based on standardized algorithms for calculating indicators. The second one is personified and defined by sectoral business features and specific conditions. This necessitates the use of various innovative management tools and forming the basis for a balanced system of strategic management. This approach requires recognition of the value-oriented development strategy as a base that governs the development of other functional strategies (investment, innovation, marketing, etc.).

Strategic management requires the development of appropriate methods of collecting and processing information; procedure for determining key performance indicators and organizations working with them; effective methods of influence on employees; control systems, that is, the formation of organizational and economic mechanism of strategic management. This is the basic directions, which should be a methodical development for the practical implementation of the concept of value-based strategic management in domestic enterprises.

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