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STRATEGIC PLANNING – INSTRUMENT OF EFFECTIVE MANAGEMENT UNDER CURRENT ECONOMIC CONDITIONS

The role of strategic planning at enterprise under current economic conditions has been investigated in the article; the main competitive advantages of an enterprise have been analyzed; the degree of influence of competitive power of investigated enterprise using strategic Porter model has been defined. It was concluded that big attention should be paid to activation of activity of existing competitors. The increase of role of substitute goods causes specific worsening of situation. Suppliers of raw materials are not threaten for the enterprise being in long term relations and new market participants for which high barriers of entry, crisis economic situation and activity of existing companies in defending their positions make unable any efforts to enter and stay at market.

Key words: strategic planning, adaptability, effective management, competitive advantages, suppliers, competitive power, control strategy, internal factors, external factors, strategic model.

Problem statement. Strategic planning is an important aspect in each enterprise influencing future location among its competitors. A lot of managers of companies do not realize the advantages of strategic planning.

Any enterprise owing to planning has a possibility to take into consideration internal and external factors in advance, which support favorable conditions for effective functioning. Investigation of the process of building and approaches to the choice of the model of strategic planning will help business entities to implement effective system of strategic planning.

It is necessary to prove the necessity of development of strategic planning at enterprise and identify its role in development of prospective directions of foreign economic activity of an enterprise.

Review of recent investigations and papers. Scientific works of the following national and foreign scholars-economists deal with the issues of usage of strategic planning at companies, they are: M. Aleksyeeva, L. Balabanova, O. Bohomolov, L. Vladimirov, A. Gradov, A. Idrisov, S. Kartyshev, L. Karyakin, L. Lakhtionov, S. Nikiforov, S. Oborska, A. Postnikov, V. Ponomarenko, L. Chorna, O. Yastremska and others. A significant contribution into the formation and development of theoretical base of strategic management has been made by: D. Aaker, R. Akoff, I. Ansoff, P. Druker, H. Wissem, W. King, D. Cleland, H. Mintsberg, M. Porter, A. Thompson, A. Chandler.

This issue is not studied well enough in Ukrainian literature, only separate issues are explained that is why Ukrainian entrepreneurs should use such methods of the development of strategy, which are not adaptable to conditions of functioning of companies in national business environment and are not tested.

Presentation of the material. Ukrainian companies try to use and improve different systems and models of management activity to increase long-term effective activity. Special departments, working groups and sectors for defining long-term strategic priorities of the development of a enterprise and forming corresponding strategic systems are created at companies. Using modern achievements and results of strategic management, enterprise receives a considerable advantage comparatively with competitors in struggle for resources, markets, consumers, suppliers etc.

Most western and eastern companies use strategic planning for making some changes and solving difficult problems formed outside and inside the enterprise.

Strategic planning is adaptable to changes of conditions. The peculiarity of strategic planning is increasing level of participation of manager of an enterprise. The important thing is that while competitive strategy is chosen, leaders should understand clearly which type of enterprise they want, because strategies of increasing for small, average and big companies are different.

Small companies have such advantage as flexibility giving them possibility to rebuild their activity that is why they have economic prospects. To main types of strategies of a small enterprise belong copying strategy, strategy of optimal size, participation strategy in product of a big enterprise and strategy of use of advantages of a big enterprise. Direction of these strategies minimizes acuteness of competition with big enterprises and the best use of its flexibility.

Average enterprises for support of vital activity have to observe specialization at market niche. Average enterprises can choose one of four types of increasing strategies depending on rates of their increasing and rates of increasing market niche: strategy of preservation, strategy of search of invader, strategy of leadership in niche, strategy of leaves the niche. Market niche for average enterprises is a means of competitive struggle against big enterprises.

Strategies for big enterprises should be chosen on the base of analysis of key reasons characterizing their condition taking into account the results of analysis of portfolio of different types of business and character & essence of realized strategies.

On current stage of development, strategic planning is an instrument of struggle against chaos and is considered as a means of overcoming increasing instability of external surrounding. Foreign investigations, the object of which was the influence of strategic planning on financial indications of an enterprise, revealed that systematic use of strategic planning can improve the results of activity. Thus, the main advantages of strategic planning revealed in foreign investigations are the following:

- possibility to choose new logic of future development;
- used as an effective means of increase of company's availability to overcome changes;
- improves coordination of enterprise activity and minimizes irrational actions concerning overcoming unexpected changes;
- supports more effective distribution of resources;
- supports total complex approach to enterprise and its surrounding;
- gives opportunity to see prospects of an enterprise;
- distributes responsibility not only for directions of activity but also for current and future activity.

Practical use of strategic planning can be observed at enterprise LLC "Impulse". LLC "Impulse" is Ukrainian leading producer of various paint-and-varnish materials. The enterprise was founded in 1998. Its specific activity is in production of varnish – PF (ПФ) 060, PF (ПФ) 040, parquet alkyd urethane, varnishes for wood and metal; paint – PF (ПФ) 115, PF (ПФ) 266, water disperse paint; enamel – GF (ГФ) 021, MC (MC) 17, ML (MJ) 165 and other first coats. This enterprise produces more than 40 colors of paint.

The main competitive advantages LLC "Impulse" is shown in Table 1. The enterprise has its consumers and dealers realizing production not only in Ukraine but also abroad. Its production is qualitative and certified but has negative impact on environment. Consequently, it is necessary to take into consideration experience, quality, and price, widen sales and consumers base.

To study a competitive struggle in the sphere, sources and evaluation of the level of the influence of competitive forces using strategic model of Porter.

Model of competitive forces according to Porter includes such components: competition between producers of the given sphere; threaten of appearance of new competitors; economic possibilities of suppliers; economic possibilities of consumers; substitute goods.

Porter model is shown on the example of analyzed LLC "Impulse" depicting competition between producers of the given sphere. Paint-and-varnish industry in Ukraine comprises 150 enterprises until 2009, about 50 of them could produce more than 1000 tons of paint-and-varnish production during a year. Only 15 enterprises produce almost 60% national paint-and-varnish materials among which were open joint-stock company "Dnipropetrovsk VPP", open joint-stock company "Sumykhimprom", open joint-stock company, closed joint-stock company "Lakma", LLC PE "ZIP", closed joint-stock company "Khimreserve" and others. To leading national producers of paint-and-varnish materials belong some big companies with foreign investments, founded in recent years, in particular "Snezhka-Ukraine", "YOBI-Ukraine", "MeffertHanzaFarben" and "Polifarb Ukraine". Small companies increased very quickly with the volume of production until 500 tons during a year. National market of paint-and-varnish materials shows high rates of increase: in 2010 the growth of Ukrainian market paint-and-varnish materials was 12-15%, in

2011 — about 20%, in 2012 — about 15%.

Table 1

Competitive advantages of LLC “Impulse”	
Index	Characteristics
Organizational competitive advantages	
1. Experience.	Enterprise at paint-and-varnish market since 1998.
2. Enterprise size.	Small.
3. Financial power.	Own costs.
4. Management effectiveness.	No marketing service. Manager is obliged.
Functional competitive advantages	
1. Marketing: - price segment; - communication policy; - consumers.	Base and wholesale price. Prices vary depending on the type, volume and color of good. Absent. Formed consumers' base.
2. Production: - quality of goods; - use of environmentally safe materials; - use of new technologies of production;	High. Use of materials causing damage to environment. Certified and licensed raw materials.
3. Personnel: - qualification of personnel; - experience of practical activity of personnel.	Scientific laboratory at enterprise developing new organic products. 200 highly-qualified employees, personnel and managers. Coordinated work at all levels. The system of training and education is at enterprise.
Competitive advantages based on mutual relations between external surrounding	
Organized relations between suppliers.	The enterprise has its suppliers supplying either national or foreign raw materials of high quality.
Work with dealers.	The enterprise cooperates with trade dealers and agents of marketing service.

The influence of substitute goods. The segment of water-disperse materials is developed the most dynamically in Ukraine. Alkyd and water-disperse paints is of the biggest demand: 55-60% of common market of paint-and-varnish materials and water-disperse paints — 30-35%. Marketing specialists evaluated the part of the market of oil and powder paints as 5-7% for each of them. The variety of paint-and-varnish materials were increased in Ukraine during the last 3-5 years.

According to the data of Public Statistic Service, in 2010 in Ukraine 236 000 tons of paint-and-varnish materials were produced. The market of paint-and-varnish materials is increased owing to national producers. The volume of production of paint-and-varnish materials in Ukraine was increased in 18% in 2012 while the volume of import of this category of production was increased only in 5%.

Threaten of potential competitors is not big because of existing significant barriers for entering into market. It is the following:

- small profitability of the sphere;
- decrease of demand in production;
- production saving, what supports competitors to spend more costs for production and it influences the price being significant for a consumer;
- only availability of full cycle of production gives the possibility for an enterprise to manufacture products of high quality. It requires very big capital investments;

- loyalty to trade mark of consumers;
- difficulties in mastering production technology of paint-and-varnish materials of high quality;
- high level of production differentiation. Companies being at market for a long time are fixed in consumers' mind;
- threatens as additional costs connecting with the access to cheaper sources of raw materials;
- government regulation. Absence of possibility for new market participants to receive subsidies.

Besides, companies being at market for a long time are active to defend their supplies and have a considerable experience playing a considerable role in many spheres of production.

Consumers as competitive power demand constant fall in prices and increase of quality of products & services; companies decrease their profit to satisfy all these aspects. Hence, the influence of the given power on an enterprise is significant enough.

The main consumers of paint-and-varnish production are persons aged between 18 and 75 of an average income and higher having secondary, higher or undergraduate education. The enterprise realizes its production for hospitals, schools and other public establishments.

Suppliers as competitive power. The influence of suppliers is not so significant because of production of paint-and-varnish materials is usually manufactured from own raw materials. The most important introduction are made by companies "Pologivsky plant" – sunflower oil; LLC "UkrOliya", TM "Dykanka" – oil; open joint-stock company "Metafraks" – pentaerythritol; open joint-stock company "Uralkhimprom" – phthalic anhydride; LLC "UKRMINERALRESURS" – chalk.

The power of another interested persons. The state has the biggest power on an enterprise. It influences using control upon circulation and realization of production, defining necessary level of quality of production, labeling, impose revenues and taxes, forming competitive conditions etc. The main threat is the state itself (local tax office, arbitration tribunal, job placement authorities, departments of State Pension Fund, fire-prevention and sanitary inspection etc.).

Analyzing competitive powers using methods of estimation and analysis, the most significant criteria were defined for each separate competitive power. The level of influence of the criterion on a company should be evaluated according to 5-grade scale (big influence – 5, moderate – 4, mediate – 3, weak – 2, almost not revealed – 1) and tendency of the influence of the given criterion as positive or negative (defalcation of marks "+" or "-") (Table 2).

Table 2

The influence of competitive powers on the activity of LLC "Impulse"

Competitive power	Index	Weight	Level of influence
Consumers	The volume of purchases	0.16	+2
	The price of goods in consumer's costs		-4
	The level of loyalty to a concrete seller		+2
	Buyer's sensitiveness to the price caused by orientation on trade mark and quality		-1
	Consumers' sympathy to trade mark		+4
	Stability of demand for production		-2
	Tendencies of changes of product quality role		-2
		I = - 0,02	
Producers	A lot of foreign and national competitors	0.17	-3
	Availability of leaders		+2
	Active struggle of competitors for market part		-4
	Ability to maneuver, flexibility and adaptation of competitors to changes		-5
	Tendencies to decrease of volumes of market		-1
	High level of differentiation of production		+3
		I = - 0.23	

Continuation of table 2.

Substitute goods	Quality and effectiveness of substitute good	0.1	+3
	The level of prices for substitute goods		-2
	Readiness of a consumer to buy substitute good		-5
	Costs for transition to substitute good		-5
	Stability of demand for substitute good (the level of faith)		+4
		I = - 0.1	
Suppliers	Quantity and concentration of suppliers	0.2	+4
	The level of dependence of an enterprise on supplier of resources		
	Price elasticity of resources		-2
	Suppliers income		+4
	Possibilities of use of substitute resources		+3
	Easy supplier's search of new consumers		-3
	Quality of contractual relations between suppliers and enterprise		+2
			+3
		I = 0.31	
New market participants	Availability of high barrier to entry	0.7	+4
	Activity of companies existing at market defending their positions		+4
		I = 0.68	
Other interested persons	Unstable political and legal situation in a country	0.2	-4
	Unfavorable state tax policy		-4
	Absence of adequate control over production and quality of production		-3
	Joining to WTO: opens new sales market;		+3
	makes Ukrainian market accessible for foreign competitors		-2
	Protection of private interests using state activity		-4
		I = - 0.53	

Total evaluation is defined by each power using multiplication of the coefficient of weight of index by its range:

$$I_{ij} = K_j \times \frac{\sum_{i=1}^n P_{ij}}{n} \quad (1)$$

where I_{ij} – total evaluation i index of j factor,

K_j – coefficient of weight of j factor,

P_{ij} – range i index j factor.

n – number of indexes within j factor.

Total assessments are summed within each factor and in such a way we will receive total assessment according to factor:

$$I_j = \sum_{i=1}^n I_{ij} \quad (2)$$

where I_{ij} – total assessment j factor,

Thus, total index of competitive powers:

$$I_K = - 0.53 + 0.68 + 0.31 - 0.1 - 0.23 - 0.02 = + 0.11.$$

Assessment scale of competitive powers' influence on enterprise activity was shown in Figure 1.

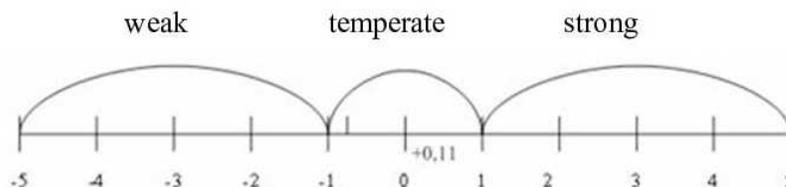


Figure 1. Assessment scale of competitive powers' influence on enterprise activity

Total assessment + 0.11 belonging to “foggy” region shows the situation at the given market to be uncertain. Either positive or negative factors of competition influence it (which exist in surrounding and subjectively evaluated by leaders of an enterprise). It requires balancing of negative phenomena and measures for their prevention or facilitation. In other case some local crises can appear in organizational and economic mechanism of an enterprise, what can cause systematic and strategic crisis.

Control strategy for costs should be used in given situation by means of reducing overhead expenses; new equipment implementation; use of cheap raw materials and resources; use of new technologies etc.

Having analyzed the activity of LLC “Impulse” we can summarize the received results in Table 3.

Table 3

Aggregate table

Functional strategy	Chosen strategy	Essence	Disadvantages, possible ways of strategy improvement
1. According to M. Porter owing to analysis of marketing surrounding	Control strategy	Increase of volumes of production, reducing of overhead expenses, use of cheaper raw materials.	Research and development & new equipment implementation cause considerable financial resources.
2. Marketing competitive strategy	Marketing strategy of nichers in particular leaving niche	Growth rate of a company-nicher leaves behind growth rate of niche. It appears the possibility and necessity to enter other spheres of business.	It is necessary to analyze competitors' activity, own possibilities of a company concerning forming competitive advantage, target market and consumers' attitude.

Analyzing Table 3, we can say that, in total, position of an enterprise is stable in current conditions. It is necessary to implement new equipment and new technologies for more productive activity and competitiveness of paint-and-varnish materials at market, to analyze competitors' activity, company's possibilities in forming competitive advantage, target market and consumers' attitude to production manufactured at an enterprise.

Conclusions and prospects for future investigations. Having analyzed the activity of the enterprise LLC “Impulse” according to main strategic models, we have enough positive results. It is necessary to develop the main types of production, invest more capital in the development of enamel, paints and varnishes. Owing to constant improvement of production, methods of manufacture, technique and designs made in own laboratory, the enterprise has a possibility to capture foreign markets. The state makes the most competitive pressure on the enterprise, its activity does not remove factors destabilizing market situation and in general, it threatens the existence of Ukrainian paint-and-varnish industry. A big attention should be paid to activation of activity of existing competitors. The increase of role of substitute goods causes specific worsening of situation. Suppliers of raw materials are not threaten for the enterprise being in long term relations and new market participants for which high barriers of entry, crisis economic situation and activity of existing companies in defending their positions make unable any efforts to enter and stay at

market.

Such situation is caused by some factors; constant changeability of surrounding can be defined as the main factor. Ukrainian enterprises, being in more unfavorable situation because of instability of economic and political state of the country, faced with such problematic situation appeared before. Consequently, the main method to solve this problem is constant adjustment of strategic plans according to external challenges.

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