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INSTRUMENTS OF IMPLEMENTING THE ENTERPRISES' STRATEGY

ABSTRACT. The main obstacles to the effective implementation of the strategy are studied. The basic tools of business strategy are analyzed. Particular attention is given to budgeting and balanced system of indexes. The advantages and disadvantages of these tools of implementing the strategy are identified. Their ability to avoid major barriers to the implementation of the strategy is determined. The main stages of complex integrated system of design and implementation of the strategy based on balanced systems of indexes are defined. It was determined at which stage of this system the main obstacles to effective implementation of the strategies are neutralized.

***JEL Classification*:** L1, G31, P31

Keywords: strategy, implementation of the strategy, plan, budgeting, management according to the objectives, balanced scorecard.

Introduction

In a dynamic and uncertain environment the importance of developing a strategy is proven. The development of strategy was the subject of many works of theorists and practitioners of management. Numerous works were formed in several schools of strategic thought. H. Mintzberg distinguishes 10 schools (Mintzberg, 2000). Representatives of these schools describe different approaches to strategy development: as a process of thinking; as a process of formal planning; as a process of selecting the position of the company; as a process of predicting the future; as the development process; as a process of negotiation, etc.

If the drafting and formulation of strategies is a subject of many scientific papers, the question of the strategy has been given the necessary attention only for the last 20 years. Quite often, despite the fact that the development of a strategy has taken a lot of time and effort, the results are not always satisfactory. And usually, the strategy is a plan, which is known by only the company's management, is not followed by anyone, and the execution of which is not controlled. Studies show that due to certain shortcomings in the planning or implementation, usually only 63% of strategies are effectively implemented (Menkins, Steele, 2005). Another study showed that 70% of CEOs' failures were not the result of poor strategy, but its inefficient implementation (Niven, 2004). If the choice of strategy is more determined by environmental conditions, the implementation of the strategy depends on the business environment, quality of management, efficiency of business processes, corporate culture, motivation system, etc. Therefore, the question of how to effectively implement a strategy to achieve planned goals is quite relevant.

The purpose of this study is the isolation of the main problems arising in the implementation of strategies and characteristics of the main tools of business strategy.

Problems of realization of enterprises' strategy

A typical feature of the leaders of Ukrainian enterprises is that they were used to solve issues and problems at the time they arise, as business rules had the ability to change daily. Thus, they do not have enough experience with strategic plans and tools (Starinskiy, 2005).

I. Ansoff analyzed and identified the main causes of failure in strategic planning (Ansoff, 1989). First of all, strategic planning is not an integrated system, so there is no mechanism for implementing and monitoring strategies. Secondly, there is a constant conflict of interests between the strategic and daily operations, setting priorities. Thirdly, computer information system for management fails to provide the necessary strategic information to managers. Fourthly, managers have no skills of strategic planning, which reduces the effectiveness of planning. Finally, there will always be resistance to change due to the threat of organizational structure and way of thinking.

Michael Menkins and Richard Steele identified the following reasons for ineffective implementation of strategy (Menkins, Steele, 2005):

- *Companies do not compare current performance with long-term plans* (according to researches, less than 15% of companies regularly compare the results of each unit with the prediction and the plans of the last year);
- *Results rarely meet projections for several years* (despite the fact that the results at the beginning of each subsequent year are slightly higher than at the beginning of the previous, they are not the same as the target);
- *Complexity of perception of the strategy* (if the strategy is not clearly defined, the correct allocation of resources is impossible. Lower levels of the organization do not know when and what to do, what resources are needed to get results. And besides, if you do not know what to do, then and it is impossible to control the execution of the tasks);
- *"Bottlenecks" are often not visible to the leaders* (top-management cannot determine whether the gap between strategy and results was due to poor planning or its inefficient implementation);
- *The gap between strategy and results encourages a culture of "relaxation"* (when unrealistic plans are taken, the entire organization expects that these plans will not be performed. And since this mode is really true, then it's gradually becoming the norm that the expected results are never achieved).

R. Kaplan and D. Norton identified four specific barriers to effective implementation of the strategy (Kaplan, Norton, 2003, 2004):

- *Vision and strategy are not achievable* (company is not able to translate their strategy into the plane of clear and achievable objectives. It results in a fragmentation and a partial optimization of efforts. CEOs and heads of departments cannot reach a consensus on what the overall concept and strategy of company really means. According to research by R. Kaplan and D. Norton, only 59% of top managers, 7% of middle managers and employees who work directly with clients believe that they understand how to act);
- *The strategy is not associated with individual goals of the units* (there is no relationship between the general strategic objectives and sub-objectives and goals of each individual employee. Surveys revealed that 74% of executives believe that their remuneration depends on the solving of the annual (i.e. short-term) objectives, and less than a third of respondents believe that their salary is directly linked to the implementation of long-term business objectives. At lower organizational level gap was even more significant. Less than

10% of middle-level managers and staff who work directly with customers, relate their salary with the implementation of the company's strategy);

- *The strategy is not associated with the distribution of resources* (lack of correlation between the plans and the allocation of resources, on the one hand, and long-term strategic priorities – on the other. For most businesses promising strategic planning and the annual budget are two completely independent processes);
- *Feedback*: *tactical, but not strategic* (no feedback on the implementation of the strategy and its "efficiency". Generally, a comparison of financial indicators derived from monthly and quarterly budgets is done. Accordingly, the analysis of strategies and performance factors of success is given very little attention).

The researches conducted by Renaissance Worldwide magazine and CFO Magazine among the 200 major Western companies highlighted the following barriers to implementation of strategies. First of all, the main obstacles to the successful implementation of the strategy is that enterprise workers are unaware of its existence, unaware of the purpose and objectives of plans to achieve the company does not have an idea of what should be their actions to achieve the objectives of the enterprise (Gerasimov, Rusin, 2007). Thus, only 40% of mid-level managers and less than 5% of ordinary workers understand the strategy and goals of the enterprise. Another negative factor that opposes the strategy's implementation is the lack of anchor between motivation and strategic goals as motivation system usually has a connection with the execution of certain financial annual performance. Thus, only 50% of senior managers, 20% of mid-level managers and less than 10% of ordinary employees associate goals and rewards with the implementation of strategy. Thirdly, even if the company has departments involved in the development of strategy and development of budget, they tend not to have close relationships with each other. As a result, about 60% of enterprises do not tie annual budgets to strategic plans. Another reason for the low efficiency of the strategy is that managers are largely focused on the control of short-term operational efficiency rather than long-term strategy. Thus, on average, 45% of managers do not spend any time discussing and making strategic decisions, and 85% of management teams spend less than 1 hour per month. In addition, a significant drawback of both the strategy and evaluation activities is basing evaluation system of the enterprise efficiency only on financial terms. According to the review (Gerasimov, Rusin, 2007), about 50% build their systems of evaluation solely on financial terms.

Summarizing the reasons that hinder the implementation of the strategy, we gather them into the following groups (*Table 1*).

Table 1. The main barriers that hinder the implementation of the strategy

Name of barrier	Essence
lack of understanding of the strategy	objectives are unclear or unachievable; lack of understanding the ultimate goal by the heads of departments, employees; problems in communication
lack of motivating factors	system of rewards and incentives are not associated with the strategy
lack of efficient use of resources	no connection between strategy and operational plans
lack of monitoring results	limited control over the results
lack of strategic thinking	preferring performance of current affairs over perspective ones
lack of managing resistance	no appropriate structure of management, which promotes changes

Source: formed by the author.

The companies use a variety of instruments of implementation of strategy, that can neutralize these barriers.

Instruments of implementing strategy

Practice widely uses such basic management tools of implementation of strategy as a system of plans, budgeting, and management by objectives and the balanced scorecard.

System of planning and budgeting is typically used for planning and resource allocation. They are the most common tools of strategy.

The system of plans of the organization is a peculiar form of materialization of planned activities (Korobeynik, Kolesov, Trifilova, 2002). Developing the necessary plans for the company is necessary because they reflect a strategic decision and resource allocation. Plans system of the modern enterprise includes four groups of related plans:

- *Basic strategic plan*, which describes the main activities for a long-term future (reflecting the corporate strategy of the enterprise). It serves as a reference and basis for the development of all other plans and is developed for a period of 3 to 5 years;
- *Tactical plans* of development of specific business lines of separate strategic business units are designed for 1-3 years and are issued, usually in the form of business plans. They display business enterprise strategy focused on growth, preservation of stability or strengthening of competitiveness and the elimination of some unpromising areas of management;
- *Operational plans* are prepared for effective monitoring and evaluation of the planned period of one month to one year. They regulate the current activities of departments and services, which focus on corporate business strategy in general and business strategy of a strategic business unit which is composed of these departments;
- *Programs and projects.* Programs present the main activities for a specified period of time. They can be programs to improve the technology, programs of quality control, etc. Programs are supported by specific projects. Projects differ from programs in the way that they have fixed cost, schedule, and include technical and financial parameters, i.e., a high level of processing.

Note the position of Gurkov I., which presents the implementation of the strategy through the following instruments (Gurkov, 2006):

- *policy* (the lock of range of acceptable and desirable actions of company in a certain industry);
- *programs* (company actions in a certain area for the future);
- *projects* (system activities that have precise quantitative performance criteria);
- *methods* ("spontaneous" actions of company’s management, linking the actions foreseen in advance and the business environment that is constantly changing).

Another common tool is the strategy of budgeting that allows you to efficiently allocate resources in line with strategic plan to link quantitatively expressed strategic goals with operational plans etc.

Most of the authors work with the following stages of developing budgets (Anan’kina, Danilochkina, 2002):

1. Selection of the main directions of the company, determining goals and objectives, establishing the boundaries of economic data and other indicators of capital, personnel, equipment and items of production.
2. Development of the first version of the budget in the form of several alternative plans (e.g., pessimistic, most likely and optimistic variants).

3. Coordination and analysis of the first draft budgets, testing for compatibility, reviewing the measures necessary to eliminate interfering factors and associated costs, making the necessary adjustments to ensure optimal adoption plans.

4. Approval of the company's budget by the top management.

5. Further analysis and correction of budgets according to changing conditions, the development of flexible budgets depending on the level of economic activity of the entity.

Budgets are usually developed for a year, quarter, and month.

With the help of budgets an enterprise develops the concept of running business (planning enterprise activity, costs and profits, coordination of units activity), improves communication (presenting plans to the leaders at different levels), increases the motivation of managers to achieve goals, controls and evaluates the effectiveness of the company; efficiently allocates the company's resources and determines the need for additional funding.

Thus, budgeting can avoid almost all the problems in the implementation of strategies discussed above. But at the same time, budgeting has certain disadvantages. For example, not all managers have the necessary theoretical and practical knowledge and skills for the analysis of financial information. Budgets may not always reflect the causes of events and deviations, and take into account changes in operating conditions.

The obstacle is the difficulty of developing budgets, major expenses of money and time. Also, if budgets are not communicated to each employee, they will not produce virtually any impact on motivation and results, but instead are seen as a means to measure the performance of employees and tracking their mistakes. Typically, budgets require employees' high commitment and productivity, which in turn leads to resistance of the workers who try to minimize the amount of work. Consequently, this leads to conflicts, stress situations and thus reduces efficiency of work.

Also, quite often there may be a contradiction between achievement of goals and their stimulating effect. This occurs in situations where the planned goals are easily attainable, and then the budget is not a stimulating factor for increasing productivity. In situations where the planned target is almost out of reach, the stimulatory effect also disappears because there is no confidence in the possibility of achieving the goals.

Another management tool that facilitates the coordination of the planning and controlling in the field of human resources management is a method of managing by purposes. This method involves determining of goals by the managers and employees for each department, project and employee that are used to monitor the planned results performance (Mishchenko, 2004).

The essence of the concept of management by objectives is that every employee in the company must have clear goals, beginning from the CEO and ending with the head of lower level management. This approach allows the management of the company to focus on achieving the goals and achieve them within existing resources.

Process of management by objectives consists of several stages. First of all, this is the stage of goal setting, which involves all employees. At this stage the exchange of information between managers and their subordinates is done which allows formulating goals to each employee in accordance with his /her capabilities and identifying resources needed to achieve these goals. Then action plans for each employee and the department are developed in accordance with the objectives. The next step is to assess the degree of reaching the goals, identify specific barriers to achieving goals and making adjustments in case of rejecting the fact from the plan. The last step is to evaluate the results of activity which can serve as a basis for developing a reward system in accordance with the implementation of the objectives, and serve as the basis for setting targets for the next period.

The advantages of the concept of management by objectives are primarily those that employees are motivated to achieve goals because goal setting directs each employee to achieve a specific outcome, for which he/she will receive an appropriate reward. Secondly, productivity significantly increases because workers know the specific goals and know how to achieve them. Thirdly, the relationship between the individual goals of each individual employee with the goals of company's departments contributes to its strategic goals.

The disadvantages of the concept of management by objectives are firstly that increasing dynamism and uncertainty of the environment drastically reduces the effectiveness of the concept of management by objectives. Secondly, the strategic and operational objectives may conflict, as the desire to achieve certain operational parameters can be an obstacle to the achievement of strategic planning targets. Thirdly, the concept of management by objectives can be used as a means to gain excessive control over subordinates, i.e. the distortion of the concept. Fourthly, there may be difficulties in setting goals through sufficiently high complexity. Also, sometimes it is impossible to objectively evaluate certain types of work and define them quantitatively.

Another tool of the strategy is the balanced system of indexes (Balanced Scorecard), developed by D. Norton and R. Kaplan. The study conducted by the professors proved that very often, in order to improve short-term financial performance; costs for training, marketing and customer service were lowered. This reflects negatively in the future financial position of the organization. To solve the problem the concept of the Balanced Scorecard was developed, which allowed integrating financial and non-financial performance (Kaplan, Norton, 2004).

Balanced Scorecard is a system of strategic management of company based on measurement and evaluation of its performance by the set of optimized parameters that reflect all aspects of the organization, both financial and non-financial. The name of the system reflecting the balance that is between short- and long-term objectives, financial and non-financial indicators, main and auxiliary parameters, as well as external and internal factors of the activity.

Objectives and indicators of the system are formed depending on the strategy of each company and evaluate the work in four aspects (perspectives): finance, customers and the environment, internal business processes, training and growth. Based on the strategic decision for each target an indicator (indicators) that characterize the degree of achievement of objectives was formed.

First of all these are financial indicators, as any enterprise is vitally interested in its financial development and positive results. The financial indicators include the following: net and gross profit, return on sales, assets, equity investments, liquidity, etc. Non-financial indicators can be named as the following: "Clients" indicators – characterizing the degree of customer satisfaction and expansion of client base (market share, increase in sales by attracting new customers, etc.); "Internal Business Processes" indicators – describing key processes in the enterprise (material logistics, production, sales, service); "Training & Development" indicators – describing the effectiveness of human resource management (turnover, number of applicants for the vacancy, the cost of workers' training, assessment of competence and training of staff, innovative and creative proposals, discipline, etc.).

After defining goals and indicators of measures (initiatives) are formed, the implementation of which must achieve a given index. The process then changes direction, balance, consistency of set of indicators are checked. To do this, the logic of causality is evaluated – how by achieving lower performance levels (prospects) the upper level will be reached. The responsibles are set according to the measures. It must be determined how the data collection for performance is implemented. To do this, moving from top to bottom, feedback process is set for each parameter, the plan criteria and limit deviations are formed. The final step is to create a chart, cause-and-effect relationships, which clearly show how the values are associated with each other (Kaplan, Norton, 2004, Gershun, 2006).

An interesting approach of R. Kaplan and D. Norton is combining these tools to implement the strategy. Thus, the authors believe that a prerequisite for the successful implementation of the strategy is a combination of strategy, planning and production activities in a comprehensive integrated management system (Kaplan, Norton, 2011). Strategic planning and operations management in this system are not seen as two different lines of business, but as stages of a system linked by the unite targets, indicators, resources, data flows and information. Implementation of a comprehensive integrated management system consists of six stages:

1. *Development of strategy*. At this stage the mission and vision of the company, an analysis of the external and internal environment is done, using various methods of strategic analysis.

2. *Planning of strategy*. At this stage the formation of strategy maps and balanced scorecards, the formation of the portfolio of strategic initiatives and developing strategic budget are conducted.

3. *Compliance of organization and the chosen strategy*. At this stage, a strategic plan for each business unit is developed, communication programs are prepared, a system of incentives and material stimulus is developed, and development program of the necessary skills of staff are prepared.

4. *Planning of operational activities*. At this stage, the key business processes in the company are settled, programs for their improvement and total quality management programs are developed. Annual operational plan is set in line with the strategic indicators recorded in the Balanced Scorecard, and budgets are developed.

5. *Monitoring and detecting problems*. At this stage the operating results of the company are monitored and the degree of achieving indicators of strategy is analyzed. For timely response to identified problems in the implementation of strategies the structure, frequency and members of relevant meetings are determined.

6. *Testing and adjustment of strategy*. At this stage the structure, frequency and participants of meetings for testing and adjusting existing strategy are defined. If necessary, changes in the strategic map and balanced scorecard are made.

In addition, an important organizational aspect of implementing a comprehensive integrated management system is the creation of strategic management, which integrates and coordinates the activities of all departments to comply with policies and operations.

Implementation of a comprehensive integrated management system will neutralize most of the causes of inefficient strategies discussed earlier (*Table 2*).

Table 2. The main barriers and stages of comprehensive integrated management system, which eliminated barriers

Name of barrier	Essence of barrier	Stage of comprehensive integrated management system
lack of understanding of the strategy	objectives are unclear or unachievable; lack of understanding the ultimate goal by the heads of departments, employees; problems in communication	– at the second stage of "Planning of strategy" strategic guidelines, indicators and targets for each objective defined that allows clear understanding of the objectives of the strategy and ways to achieve them; – at the third stage of "Compliance of organization and the chosen strategy" provides cascading strategy maps to the level of business units with corresponding vertical agreed targets to the indicators; in addition a program of communications is prepared, and that will deliver the strategic goals of the organization to each employee

lack of motivating factors	system of rewards and incentives are not associated with the strategy	at the third stage of "Compliance of organization and chosen strategy" the system of rewards and incentives is developed based on performance of goals, and development of staff competencies in line with the strategy is done
lack of efficient use of resources	no connection between strategy and operational plans	at the fourth stage of "Operations Planning" the strategy is linked with the operational plans and budgets
lack of monitoring results	limited control over the results	at the fifth stage, "Monitoring and identifying problems" monitoring of production results is done
lack of strategic thinking	preferring performance of current affairs over perspective ones	the fifth stage, "Monitoring and detection of problems," provides distinction of meetings to analyze production activities and policy analysis
lack of managing resistance	no appropriate structure of management, which promotes changes	at the third stage of "Compliance of organization and the chosen strategy" the consistency across all organizational structures is conducted, coordination of ancillary units, and creation of strategic management are introduced

Source: formed by the author.

Thus, complex system of design and implementation of the strategy on a base of balanced scorecard allows organizations to fully exploit the potential of their strategies.

Conclusions

All tools of the strategy implementation can be used in practice. All of them have both advantages and disadvantages. But the greatest effect that the budgeting, management by objectives, the balanced scorecard bring is in the case of not a sole but united use. In particular, the complex integrated management system based on the Balanced Scorecard allows neutralizing the barriers of effective implementation of the strategy.

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