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## **RESEARCH OF THE INTERCONNECTIONS OF THE COMPONENTS OF STRATEGIC POTENTIAL OF THE ENTERPRISE AND FUNCTIONAL STRATEGIES**

**Abstract.** *This article shows strategic potential of the enterprise in combination of target, structural and competitive approaches. The role of the strategic potential of the enterprise in forming a set of functional strategies developed at the level of individual management departments and services was considered. It is emphasized that successful implementation of functional strategies ensures the effectiveness of the overall strategy of company development. The mechanism of the relationship between the functional areas of the enterprise, the components of the strategic potential, functional strategies, the overall (economic) strategy and the goal determination was built. According to the strategic problems to be solved at mining enterprises, the functional components of strategic potential have been formed. A number of functional and complex strategies for solving strategic problems of mining enterprises was identified. The indicator to determine the effectiveness of a functional strategy at the enterprise taking into account the individual parameters of its evaluation was proposed.*

**Keywords:** *strategic potential of the enterprise, functional zones, functional strategies, complex strategies.*

### **Introduction.**

The practice of activity of Ukrainian enterprises over the last decade shows that when using the concept of strategic management, not enough of the efficiency reserves are taken into account. These reserves may be both hidden and visible. Owing to the neglect of such reserves, opportunities to achieve effective results are often lost in the strategic perspective of any line of business. Sustainable positions in a competitive environment are determined by the potential of the enterprise.

Strategic potential (SP) forms the basis for development of a set of functional strategies, that is, in B. Karlof's view, the "untapped whole of management" [1, p. 83] of modern enterprises. Functional strategies developed at the level of individual management functional departments and services belong to the strategic "framework" of any organization that ensures viability and effectiveness of the implementation of the overall (economic) strategy.

Taking this into consideration, under current conditions there are not enough researches about interconnection and mutual interference of functional components of strategic potential and versatile functional strategies of the enterprise, the effectiveness of which influence the results of operations and long-term perspectives.

#### **Analysis of modern scientific research.**

Questions of formation of strategic resources, influence of individual functional subsystems of the enterprise on the corresponding components of the potential are investigated in scientific works of many foreign scientists who created and developed the theory and practice of strategic management. The greatest contribution to the development of the theory and practice of strategic management has the scientific works of I. Ansoff [2], A.A. Thompson, A. Strickland [3] and others. Domestic scientists have developed the methodology of strategic management in the direction of adaptation to modern conditions of functioning of Ukrainian enterprises in the period of formation and development of market relations. The works of Z.Ye. Shershnyova [4] I.A. Ignatyeva [5] and others should be noted.

In the works of A. A. Thompson and A. J. Strickland [3], Z.Ye. Shershneva [4] attention is paid to the role of functional strategies in enterprises. Considering the content of functional strategies, Thompson and Strickland point out that these strategies need to be as many as there are core activities in the corporation [3, p. 82]. In the work [4, p. 350] Z.Ye. Shershnyova defines a "strategic set" of functional strategies within the organizational structure of each functional subsystem at the enterprise. In the same work, the substantive characteristics of the main varieties of functional strategies are presented in detail.

A number of important methodological approaches to formation, evaluation and management of strategic potential at industrial enterprises should be noted, I. Ansoff in his scientific work "Strategic Management" [2, p. 164] has already researched a set of components in forming the company potential for selection of a strategy. Production capacity and its competences are an important component in this work. It was determined that the system of components and competencies are production oriented and responsive to a certain jet strategy.

Recently, the issues of forming the strategic potential of the enterprise (hereinafter SPE) and its management in the researches of Ukrainian scientists I.A. Ignatyeva [5], A. Azarova [6], M.V. Novikova [7], N.V. Kasyanova [8] and others were researched. The scientific works of these authors thoroughly covered the issues of determining the category of "SPE, its characteristics, classification of components, approaches to evaluation, the impact of external factors.

I.A. Ignatyeva [4, p. 24-27] proposed a methodological tool for formation of a balanced strategic potential, which enables to study its condition and predict the trends of possible structural changes. In the works of A.O. Azarova [6] and M.V. Novikova [7] investigate models of the process of diagnosis and evaluation based on the fuzzy modeling method.

N.V. Kasyanova considers the mechanism of interconnection of strategic and operational potentials of the enterprise [8, p.89], where it divides the functional components of these potentials into operational and strategic parts. The possible expediency of such a distribution should be noted. For example, production belongs to operational capacity, whereas related innovation is a part of the strategic component.

It should be noted that in most works, attention is paid to the formation of SPE in the development and selection of the overall strategy of enterprise. However, the diversity of scientific approaches requires their generalization and further development of theoretical propositions and methodological tools in the context of considering the components of the SPE and developing appropriate functional strategies and substantiating their effectiveness.

The purpose of this study is to determine the role of components of the strategic potential of the enterprise in the development of effective functional strategies that ensure successful implementation of the overall strategy and its long-term perspective.

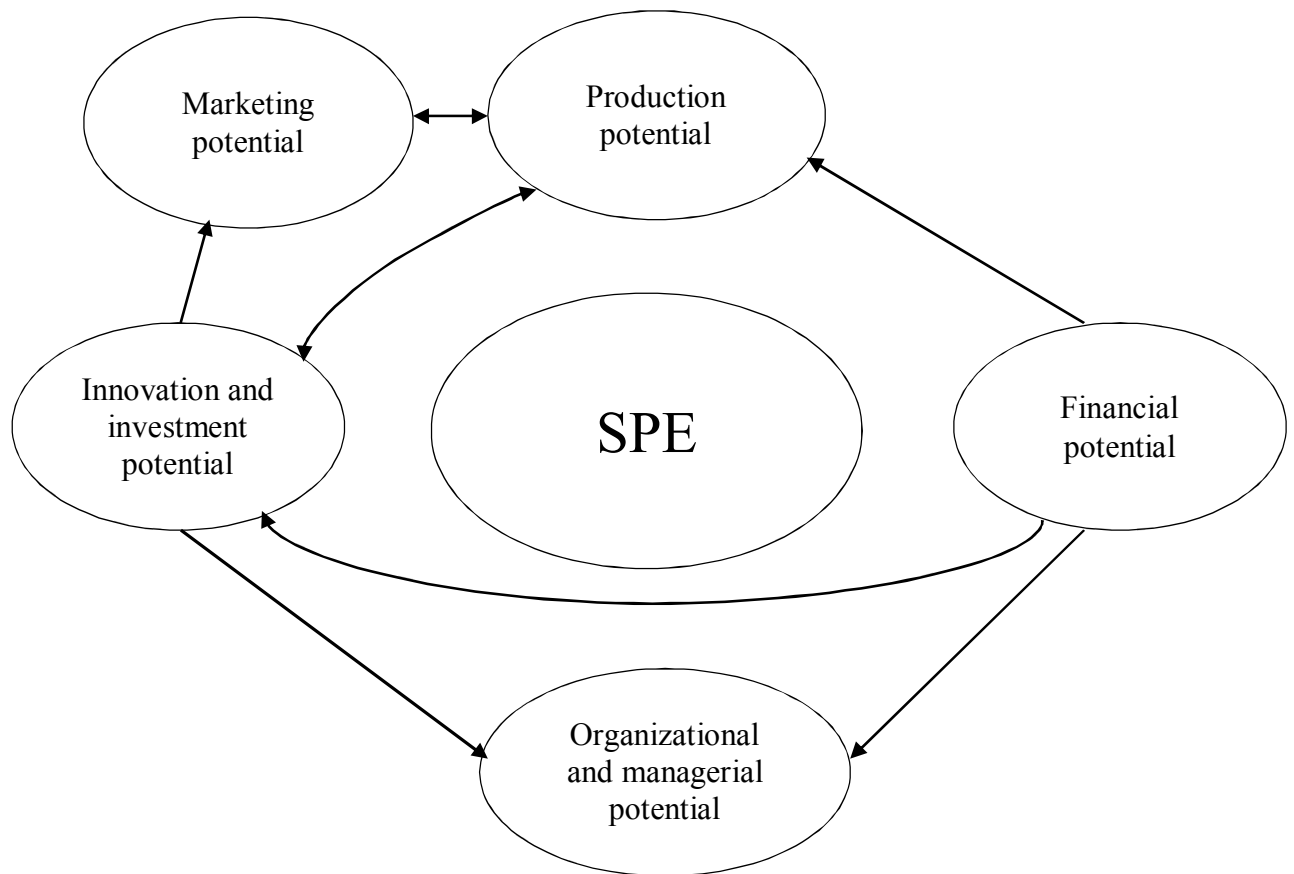
#### **Statement of basic materials.**

The study examines the activities of industrial enterprises of Kryviy Rih, in particular, iron ore mining and processing enterprises (MPE). The iron ore industry is one of the priority areas of the national economy, and its resources in Ukraine are the largest in the world, numbering almost 12 billion tonnes, which exceeds 16% of the world's explored reserves [3]. Increasing the efficiency of mining enterprises is hampered by the presence of a range of problems that have accumulated over the long term intensive exploitation of iron ore deposits and are associated with a number of features and specific conditions of technical, environmental, organizational and managerial character. Studies have shown that timely resolution of problems depends on the effectiveness of implementation of a company development strategy, in particular, in the functional areas of activity [8].

SPE allows the use of external and internal capabilities of the company to implement strategies in the functional areas to achieve targeted results in each area. To create an effective SPE that meets current needs, it is necessary to provide an NGN management process that allows to influence its formation, structure and use in accordance with established goals.

In this study, the strategic potential of the enterprise is considered when combining target, structural and competitive approaches. SPE is an integral indicator that expresses the ability of the enterprise to achieve its strategic goals for all development prospects, taking into account the impact of various environmental factors, and includes components for functional areas of activity in assessing synergies.

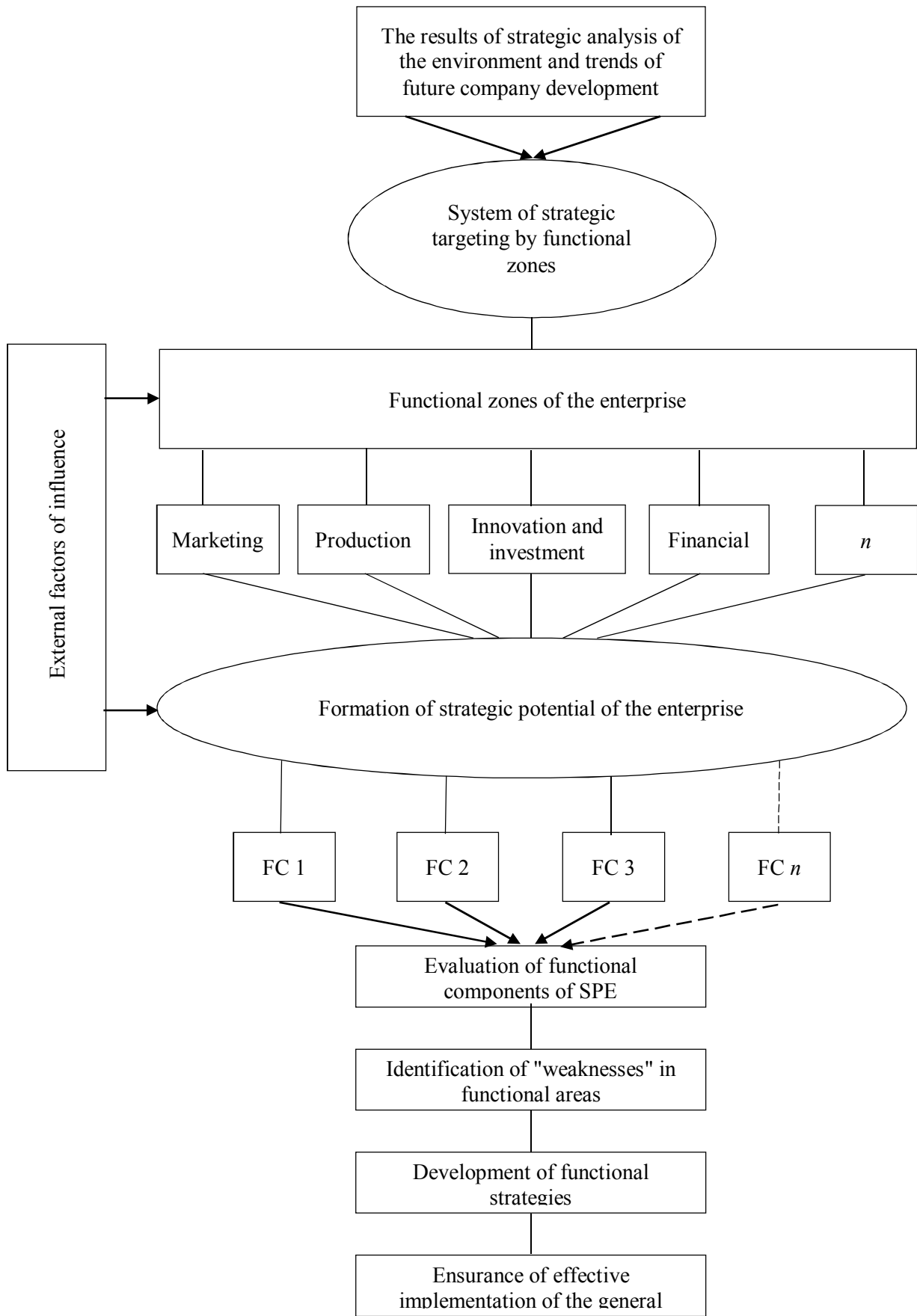
Recent studies of the condition of functioning of the enterprises of iron ore industry show that the main strategic problems constitutes in raising the technical level of production (introduction of modern equipment and technologies), innovation-investment sphere, organizational-management sphere and expansion of market segmentation (marketing sphere) [10-11]. According to these key strategic spheres of activity and formation of potential capabilities of the enterprise it is possible to determine the components of the strategic potential of the mining enterprise by functional zones: production potential; innovation and investment potential; financial potential; organizational and managerial potential; marketing potential (Fig. 1).



**Fig. 1. The interconnections of the main functional components of strategic potential of the mining enterprise**

According to the results of the evaluation, it is advisable to determine the total indicator of each component of the strategic potential of the enterprise. The production potential also includes the provision of environmental measures, as well as measures for reconstruction and technical re-equipment of production processes. Innovative investment potential includes the provision of innovative measures planned at the enterprise prior to implementation in the strategic period, first of all, the volume of investment resources of the relevant sphere [12]. Financial potential is characterized by strategic possibilities of growth of own capital, capital structure.

According to the parameters determined according to each functional area, it is possible to mark individual "weaknesses" of the enterprise, which should be used later in setting strategic goals for individual functional zones to solve these problems in the strategies for the planned strategic period. For example, production potential can be estimated by such parameters as capacity utilization ratio, return on assets, return on fixed assets, depreciation coefficient and fund upgrades. In this way, the relationship between the purpose-setting system, the functional zones of the enterprise activity, the components of the SPE, the functional strategies, the general (economic) strategy (Fig. 2) was built. An important role is played by the study of the influence of external macro- and microfactors on the components of the strategic potential of the enterprise. The factors of direct and secondary impact are considered and the degree of their influence is determined by the peculiarities of the individual evaluation parameters and the internal elements of the SPE components.



FC<sub>1</sub>, FC<sub>2</sub>, FC<sub>3</sub>, FC<sub>n</sub> – functional components SPE

**Fig. 2. Mechanism of influence of functional components of SPE on efficiency of implementation of the general strategy**

Functional strategies have a significant number of directions in the relevant areas of the enterprise. The feature of all types of lower-level hierarchy strategies, which functional strategies belong to, is their subordination to the content and purpose of the adopted overall company development strategy. Each of these functional zones has its own evaluation criteria according to the specificity and role in ensuring the future effective life of the enterprise.

Therefore, it is necessary to ensure the quality of preparation of functional strategies, their direct correlation with the overall strategy of the enterprise, as well as their specific direction, namely to eliminate the identified “weaknesses” in the strategic potential of the study. Thus, the potential shapes the quality of strategy implementation and the future efficiency of the enterprise in this activity area. It is known that in order to ensure effective results of production and economic activity for a long-term period, an enterprise should investigate and analyze not only the influence of various factors of the external environment, but also the state of internal elements and their correspondence with external factors.

**Table 1. Formation of functional strategies for solving current issues of mining enterprises**

<i>Issue</i>	<i>Directions of decision</i>	<i>Functional strategy</i>	<i>Comprehensive strategy</i>
1. High competition in domestic and world markets of iron ore	Marketing	Marketing (search for new market segments)	Strategy of support of competitive position
2. Insufficient competitiveness of commodity iron ore and iron ore concentrate	Production Marketing Innovations	Production (technical and technological) Marketing (analysis of consumer requirements and requests) Innovations and investment (introduction of innovative developments)	Strategy for improving the competitiveness of commodity products
3. Sufficiently high degree of wear of the active part of fixed assets	Production Marketing Innovations	Production (modernization and technical re-equipment) Marketing (marketing research on equipment upgrades) Investment (raising investment resources for equipment modernization and upgrades)	-
4. High energy intensity of ore production	Production Innovations	Production (technical and technological) Innovative investment (introduction of innovations for reduction of energy intensity)	-
5. Negative impact of industrial activity on the environment	Production Innovations Investments	Production (modernization of technologies) Innovations and investment (implementation of innovations in environmental measures and realization of corresponding investment costs)	Environmental protection strategy

It is advisable to distribute the solution of the problems in the directions, in which the corresponding functional strategies are formed: marketing, production, innovations, investments. These strategies may have some variety concerning task directions. The analysis of the state of mining enterprises revealed a number of problems, which are reflected in the established strategic goals and can be allocated according to the respective functional and integrated strategies (Table 1).

Complex strategies are formed by combining functional (sometimes competitive) strategies to achieve complex goals through the efforts of most structural units at the enterprise. Modern problems of mining enterprises can be solved by implementing such complex strategies: strategy of support of competitive position, strategy for improving the competitiveness of commodity products, environmental protection strategy, strategy of improving organizational and managerial processes.

When determining the effectiveness of implementation of a functional strategy (FS<sub>n</sub>), the influence of the main external and internal factors on the parameters under study should be taken into account.

Evaluation of the effectiveness of functional strategy (FC<sub>n</sub>) can be derived by the following formula:

$$FC_n = \sum_{i=1}^n z_i \cdot x_i \quad (1)$$

where  $x_i$  – value of  $i$  parameter of functional strategy evaluation;  $z_i$  – coefficient that takes into account the degree of influence of  $i$  parameter on the result of implementation of the functional strategy;  $n$  – number of evaluation parameters of the functional strategy.

Ensuring a favourable SPE for functional components not only improves the effectiveness of implementation of the functional strategy and determines the priority of a department in allocation of finance, but also explores the synergistic component. The combination of functional strategies implemented in the "strategic set" for the long term period allows to obtain a synergistic effect, which is an additional contribution to the results of the enterprise.

### Conclusions.

SPE allows the use of external and internal capabilities of the company to implement strategies in the functional areas to achieve targeted results in each area. According to the results of the study of modern problems of iron ore mining and processing enterprises the components of SPE, which can be estimated by individual parameters, reflecting its level of application in functional strategies were identified. In accordance with the system of strategic targeting and taking into account the environmental factors, a mechanism of influence of the components of SPE has been formed due to implementation of functional strategies on the effectiveness of the overall strategy of the enterprise. On the basis of the components of SPE, a set of functional and complex strategies for solving current issues of MPE and an indicator for evaluating the effectiveness of a functional strategy was proposed.

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