Sustainable development strategy formation for business corporations

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Summary. The article explains the concept of the company sustainable development strategy based on its economic security level, which includes the economic security concept loss threat control; and the concept of company sustainable development based on the fact, that the company in a developed market should not only "defend", but also ensure its development. After it implementation of decomposition is applied to the system of strategic economic security through a balanced scorecard, which allows translating the mission and vision into a set of operational goals and targets. The main components of strategic economic security provision are: business processes, finance, contractors and staff; based on the state which economic security level is determined as: high, normal, low or critical. After that, the strategic prospects are set, i.e. transition from the lowest to the highest economic security level takes place, passing the economic security fields. In order to do this, certain company development strategy is selected, the mechanism for its implementation is being worked out. At the same time, company sustainable development strategy is identified in the case of a growth strategy use, which implies a transition from endogenous development strategy to introductory or introspective development strategy with further access to multi-integral development strategy. If there is inverse relationship, one can not speak of any sustainable development strategy. Besides, development, implementation and use of monitoring for the design process of the company's development strategy taking into account its economic security level acquires great importance.

Keywords: strategy, sustainable development, economic security, enterprise

Формирование стратегии устойчивого развития коммерческих организаций

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Реферат. В статье обосновывается концепция стратегии устойчивого развития предприятия с учетом уровня его экономической безопасности, включающая в себя концепцию контроля за угрозами потери экономической безопасности и концепцию устойчивого развития предприятия, исходя из того, что предприятие в условиях развитого рынка должно не только "защищаться", но и обеспечивать собственное развитие. Построение концепции стратегии устойчивого развития предприятия с учетом уровня его экономической безопасности базируется на следующих составляющих: миссии, видении, системе стратегических целей и стратегическом плане развития предприятия. Далее следует осуществление декомпозиции предприятия на системы стратегической экономической безопасности и последовательное сбалансированное определение показателей, позволяющее перевести миссию и видение предприятия в набор оперативных целей и показателей. Основными компонентами обеспечения стратегической экономической безопасности предприятия выделяются: бизнес-процессы, финансы, контр-агенты и персонал, на основе состояния которых определяется уровень экономической безопасности: высокий, нормальный, низкий или критический. После чего устанавливаются стратегические перспективы, то есть обеспечивается переход от низшего уровня экономической безопасности к высшему, сменяя поля экономической безопасности. Для этого избирается определенная стратегия развития предприятия, проявляющаяся механизм ее реализации. При этом стратегия устойчивого развития предприятия идентифицируется в случае использования стратегии роста, подразумевающей переход от стратегии эндогенного развития к стратегии стратегии интродуктивного или интроспективного развития с дальнейшим выходом на стратегию полинтегрального развития. Если наблюдается обратная взаимосвязь, то говорить о наличии стратегии устойчивого развития нельзя. Кроме того немаловажное значение приобретает разработка, внедрение и использование мониторинга процесса формирования стратегии развития предприятия с учетом уровня его экономической безопасности.

Ключевые слова: стратегия, устойчивое развитие, экономическая безопасность, коммерческие организации

Intro

It is scientifically proven that a stable business environment for a company ceased to exist. These changes, in our opinion, are associated with re-engineering of business processes and the constant conversion of business security system due to the mobility of the external and internal environment. In this regard, the formation of such a strategy is necessary, which would allow business corporations to continue sustainable development under volatile market conditions.

I. Ansoff [1] suggests the following definition of a strategy as one out of several sets of rules for decision-making concerning the organization behavior. A. Chandler [2] in his works interprets strategy as a method of long-term organizational objective setting, its activities programmes, and priority ways of resource appliance.
According to G. B. Kleyner [3], strategy is a complex of interconnected decisions defining the priority directions for resources and efforts of a company in order to realize its mission. A. A. Thompson and A. J. Strickland [4] understand strategy as a set of actions and approaches for the desirable operational parameter achievement. G. Mintzberg [5] supposes that strategy is a plan, some type of reasonable and purposefully designed sequence of actions.

We interpret a company strategy as the general plan of activities which defines the priorities for strategic objectives, resources and sequence of steps for strategic goal achievement. The main objective of a strategy is to move the company from its current state to the future state desirable of its top management.

There are many different classifications of business strategies in the economic literature based of certain features. Thus, depending on the level of strategic decisions O. A. Stepicheva and V. D. Mamontov define corporate, competitive and functional strategies [6].

Corporate (basic, portfolio) strategies are related to the overall development route for a company or an integrated (corporate) economic system as a whole. The key purpose of a basic strategy is the choice of those benchmarks and system elements, which should receive appropriate resources and investment, as well as management effort that would provide the required level of efficiency and sustainability. The basis of such strategy is the allocation of resources among departments based on portfolio analysis; diversification of production in order to reduce economic risk and obtain synergy effect; change of business organizational structure; creation of the unified development strategy for all units.

Competitive strategies apply to specific business units of a company. Their goal is to ensure the effective implementation of business plans of development of individual processes, directions, divisions based on the selection of the optimal set of actions. Here we consider the prospects of the possibility of financing the new product production, phase-out of the existing unpromising products, we also address production, pricing, advertising, marketing, and other strategic initiatives in a given market or market segment.

The functional (business, competitive) strategies are adopted for the convenience of the company’s departments. Each functional unit (production, marketing, finance, R & D, HRM) plans its funding and management tools as a way to achieve local goals of the process, function, or division. The purpose of such a strategy is to develop competitive position or efficient behavior within the specified function.

However, taking into account the current conditions of companies operation, where the factors of external and internal environment are very volatile, organizations need to choose a strategy focused on the development.

From V. V. Frolova’s point of view [7] there are several strategies for company development, associated with the stage of its life cycle:

1. Growth strategy – the key strategy, expressing the orientation for production volume, profit and capital increase;
2. Stabilization strategy – the strategy of a company under the state of instability of the sales volume and revenue, as a response to external pressures from the external environment;
3. Survival strategy – defensive strategy (applied in case of a complete failure of a company’s economic activity under the state close to bankruptcy).

A. A. Andreeva [8] identifies two basic strategies chosen a by company taking into account the level of its economic potential, lifecycle stage and market position: development strategy and survival strategy.

In the works of R. Ackoff, development is a question not so much of what has been done as of what can be done to the existing situation [9]. Development means change the company’s economy state, consisting of transition from one position to the other, which is considered to be the better, more effective or appropriate for the activity.

Companies are resorting to survival strategies when indicators of their operations deteriorate and no action change this trend.

The economic approach to the sustainable development concept of organizations is based on the theory of the maximum flow of aggregate income by Hicks-Lindahl, which can be produced while preserving the total capital, by means of which that income is produced. The modern interpretation of this concept of sustainable development, according to V. G. Kogdenko and M. V. Melnik [10], should be result-focused. This is the 3E concept that reflects the company's development direction based on the "effectiveness, economy, and efficiency." According to this concept of company’s activities should be planned, organized, motivated, accounted for, and controlled.

As for the internal control, it is difficult to define single concept of its implementation, and single model of its regulation, since its design today is determined by the economic entity top management. The main rule for such a control system design is to balance risk and profitability of a company.

Thus, the entity shall provide its own protection in the process of its development. Design of a strategy to ensure economic safety for a company should be coordinated with the creation of the strategic goals ensuring the growth and protection of the business economic interests against various threats by forming long-term development trends.
In this regard we believe, that the main objective of developing a strategy ensuring business economic security currently consists not in achieving the highest possible degree of stability, but of its growth and development. It does not matter, at what expense the business achieves this objective. That is, there are companies stable in their capital but stagnant, and, vice versa, unstable, but is rapidly developing. We should note, that the latter are the most successful under the market conditions, in our opinion.

Hence, business economic security strategy, in our opinion, should be based on the creation of such operational conditions for business, which contribute to the maximization of profit and at the same time ensure its growth and dividend payment to its owners.

Thus, the compromise concept between risk and return is that the receipt of any income by a company is typically associated with risk, the relationship between these two interdependent features being directly proportional: the higher the required or expected rate of return, i.e. the return on investment, the higher the degree of risk associated with the possible non-receipt of this profit; the opposite is true as well.

So, the concept of economic safety ensuring for business should, in our view, include the concept of loss threat control and the concept of sustainable development of the company. I. M. Podmolodina, V. P. Voronin, E. M. Konovalova [11] suggest monitoring the ratio of the growth rate of the key indicators describing the proportionality of the company’s economic development in order to assess the business operation safety.

In Kovalev’s opinion [12], the optimal is the proportion based on the following interdependence:

\[ R_p > R_r > R_a > 100\% , \]

where \( R_p \) – the increase rate of profit; \( R_r \) – the increase rate of revenue; \( R_a \) – the increase rate of assets (aggregate capital).

The presented ratio is called "the golden rule of business" in the world, indicating that the profit should grow faster than revenue growth, while sales should increase faster than asset (capital), which means more and more efficient use of the company’s resources.

The researchers I. M. Podmolodina, V. P. Voronin, and E. M. Konovalova [13] suggest different variants of adding to the indicator system included into this nominal row, for instance:

\[ R_{np} > R_{sp} > R_r > R_a > R_{lc} > R_{sl} > R_{rl} > R_{lr}, \]

where \( R_{np} \) – the increase rate of net profit; \( R_{sp} \) – the increase rate of sales profit; \( R_r \) – the increase rate of revenue; \( R_a \) – the increase rate of assets; \( R_{lc} \) – the increase rate of annual average loan capital; \( R_{sl} \) – the increase rate of annual average short-term liabilities; \( R_{rl} \) – the increase rate of annual average short-term receivables; \( R_{lr} \) – the increase rate of annual average long-term receivables.

We should mention that this ratio has no clear orientation for growth, i.e. there is no connection with the final value greater than 1 (or 100%). This can not testify to the economic growth of a company.

In this regard, we have substantiated the existence of three functional criteria, generating financial component of a company’s economic security: profit, revenue, and equity. Within this triad the main driving force and the target function for threat monitoring and company's development guarantees is profit, in our opinion. Revenue growth ensures the company's development, while the equity capital increase provides for its financial growth and stability of its capital.

Design of a company's development strategy, according to S. P. Azarova [14], includes the following components: mission, vision, system of strategic goals, and strategic plan of the company's development.

The model of the future state of business should be presented in the form of mission and vision, while the concrete plan for achieving the main objective can be logically decomposed by means of strategic objective system, and on this base we can build a draft strategic plan.

Mission is the general objective that defines the purpose of a company within society. It is expressed through a number of properties: vision, scope, motivation, realism, clarity and conciseness. Defining the mission of a company, it is necessary to answer the following questions: "What is the value of the company for the society and country?" or "What does the company want to change in the surrounding world?"

Vision is the leading business philosophy, a perfect representation of the company as a leader, an ideal picture of the future which the company can provide under favorable conditions.

Besides, S. P. Azarova [14] proposes to define strategic objectives, which she defines as quantitative or qualitative targets of a company’s development. They are designed based on the existing mission, vision, results of the industry strategic analysis, assessment of the competition level in it, available resources and competitive opportunities.

In our opinion, first of all, it is necessary to determine the general goal to be the company’s strategic economic security, before developing a strategy for a company’s sustainable development taking into consideration its level of economic safety. Then we continue with the company decomposition to its strategic economic security systems by means of the balanced scorecard (BSC), which allows translating the company’s mission and vision into a set of operational objectives and indicators.

The main components of the strategic economic security of a company are business processes, finance, contractors, and personnel. As a result of the economic security risk transformation for a company in terms of its components, we have
found that external threats include those from the counterparties while the typical internal ones include threats from the business process operation; mixed economic security threats to a company (both internal and external) originate in such components as personnel and finance.

In this regard, it is necessary to define the strategic objective for each system, relevant to the time period, taking into account the degree of external and internal threat influence.

Strategic goal achievement for each system (business processes, finance, personnel, contractors) is possible through the formation of a balanced scorecard, definition of their framework parameters for assessing the level of strategic economic security.

Yu. A. Loktionova [15], E. Yu. Merkulova [16] define the following economic security levels: high, normal, low and critical economic security. The characteristics of each level E. Yu. Merkulova [16] delivers by means of such term as homeostasis (a set of interrelated functions performed suggests the existence of some rules for each function). At the high level of economic security homeostasis is undisturbed, backup mechanism is working, which leads to excess reserve formation.

If homeostasis is undisturbed, the protective mechanisms are active, but the regulatory mechanisms of the frame parameters, and homeostasis disruption. There are only two possible ways out of this state: the transition to new homeostasis and altered operation, or company bankruptcy.

After determination of the economic security level, the company, within the process of the formation of the sustainable development strategy, is to search and define the strategic perspectives, which we understand as the possibility for the company to maintain and improve the economic security of its systems at the expense of internal resources, that is, to ensure the transition from a lower level of economic security to a higher one, passing the following fields of economic security:

1. Critical economic security field describes a company’s situation below the critical safety level. Restorative strategy should be used to improve the security status, or liquidation of the company.

2. Low economic security field is characterized by a company’s situation above the critical level, but below the framework parameters for low economic security. Safe state restoration strategy is applied.

3. Normal economic security field is characterized by a company’s situation above the low level, but below the framework parameters for normal economic security. Strategy of neutralization of the existing threats is applied.

4. High economic security field is between normal and high company’s economic security. Strategy preventing destabilizing factor growth into threats is applied.

5. Besides, there should be some limitation for the company’s economic security which is the maximum of the high security level.

So, the next stage of the strategy implementation is evaluation of different strategic prospects concerning the safety fields that represent possible options of strategic management of the company perspective development at the expense of internal reserves.

We recommend searching for such reserves within the system based on elimination of inter-dependencies among the major components of the company’s strategic economic security (business processes, finance, contractors, and personnel) of the key economic security threats. In order to achieve this, particular strategy is chosen for the company's development, the mechanism of its implementation is designed as well.

Based on the research results obtained by N. V. Shesterikova [17], we have identified four development strategies for a company taking into account its economic security level:

1. The critical security level the most preferable one is orthogonal development strategy, which is aimed at immediate results. It should be noted, that within this period a company does not have time reserve, so it needs to take urgent and considerable steps to overcome crisis by means of rent or sale of unclaimed space, focusing on specialization, the segments.

2. Endogenous development strategy is the priority for low security level. This strategy aims to achieve safe business due to its internal reserves. It should be noted, that a company has good prospects to overcome crisis by means of using business incubators, bootstrapping, and product competitiveness improvement in its economic activity.

3. For normal security level the typical strategy in the strategy of introductive or introspective development, which includes attracting investors and getting bulk orders.
4. Multi-integral development strategy is typical for high security level companies. Strategic opportunities of such company determine its further development and achievement of high results by attracting venture capital.

At the same time, a company sustainable development strategy is identified in the case of a growth strategy, implying transition from endogenous development to introductive or introspective development strategy with further access to multi-integral development strategy. If there is inverse relationship, one can not speak of any sustainable development strategy. This implies the concept of the company sustainable development strategy taking into account its economic security level.

We believe that the sustainable development strategy may be generated through the implementation of programs aimed to change the security field from the lowest (unsafe) to the highest (safe), which cover all necessary measures, contain plans for the elimination of unprofitable units, creation of a flexible production structure, reorganization of supply chains and product sales, effective use of human resources, properly chosen sustainable development strategy. At the same time, development, implementation and use of monitoring for the design process of the company's development strategy taking into account its economic security level acquires great importance, which provides systematic assessment, analysis, and control of decisions and the ongoing changes in the company.

Conclusion

This approach formed a holistic view of the entire process of strategy forming. This concept allows high level of organization and direction of all the work to the formation and implementation of the strategy in a single way, as well as concentration of all company’s resources in achievement of the intended long-term targets, and ensuring the involvement in this process of both top management and ordinary managers and employees, which reinforces the interest of the latter in providing the best results and generates a sense of belonging to the achievement of the overall corporate objectives.

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Ludmila A. Zaporozhtseva integrated the information, drew results and is responsible for plagiarism

Tatiana V. Sabetova organized the information, wrote the manuscript and is responsible for plagiarism

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