

STRATEGIC PYRAMID FOR DIVERSIFIED ENTERPRISE

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Abstract. The need for the development of simple and complex strategic pyramids has been grounded in the article. This is connected with the division of diversified enterprises into strategic business units and business units that caused the formation of different types of strategies at every hierarchy level (corporate, business, functional and operating). The possible options of the strategic set for each type of a pyramid have been discussed and the essence of the strategies of all levels has been specified.

Keywords: strategy; pyramid; hierarchy; structure; diversified; simple; complex.

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Introduction

Within the framework of the external and internal environment dynamics an effective activity of diversified enterprises depends significantly on the properly chosen strategic direction of development supported by a set of strategies which constitute its strategic pyramid. The strategic pyramid should be understood to mean a set of strategies of different levels (corporate, business, functional and operating) interrelated by hierarchical relationships of subordination and conformance which together constitute a strategic set of an enterprise.

A classic strategic pyramid is developed for a diversified enterprise which consists of several strategic business units. A strategic business unit, at that, is interpreted as a division within a firm, an organizational unit which plans its work independently (choosing types of activity, developing competitive products, etc.), determines strategic positions of an enterprise in one or several areas of business and has certain stakeholders (consumers, competitors and public organizations) and its own director responsible for the results of the SBU activity to the company owners.

The studies confirm the economic expediency of dividing a diversified enterprise into strategic business units (SBU) and business units (BU) (Kozyk, Zalutska, 2016). According to which a strategic business unit is interpreted as a separate division of a company which produces one or several products with similar characteristics, has its own possibilities for future increase of production and profitability, corresponds to the general direction of the business development and hedges against risk of losing long-term competitive advantage by means of the rest of business units which provide and support the activity of strategic business units in particular and of company in general.

According to this the structure of a diversified enterprise can be as follows:

- simple - one SBU and several BU;
- combined - several BU and several SBU;
- strategically oriented - several SBU and one BU;
- strategic - all SBU.

A classic strategic pyramid, thus, is developed for diversified enterprises with a strategic structure.

In case of a simple, combined and strategically oriented structure of diversified enterprises, the activity of business units is basically aimed at supporting and providing the activity of a strategic business unit. The activity of the strategic business unit in its turn is aimed at achieving the general goal of existence of the enterprise. Thus, a certain pyramid appears at the corporate level and a pyramid in the pyramid emerges. This requires conducting a research concerning the possibility and necessity of changes in the structure of a strategic pyramid of a diversified enterprise.

Research results

The strategic pyramid for the following enterprises (Fig.1) is widely covered in scientific literature (Saienko, 2007; Mishchenko, 2004; Ponomarenko, Afanasiev, Hontareva, 2013; Andrushkiv, Maliuta,, Andrushkiv, Melnyk, 2010; Honchar, 2015):

- single-business (non-diversified) companies – this pyramid consists of three levels at which the following strategies are developed: corporate strategy which is competitive at the same time, functional and operating strategies;
- multi-business (diversified) companies – corporate pyramid which is portfolio at the same time; competitive, functional and operating strategies.

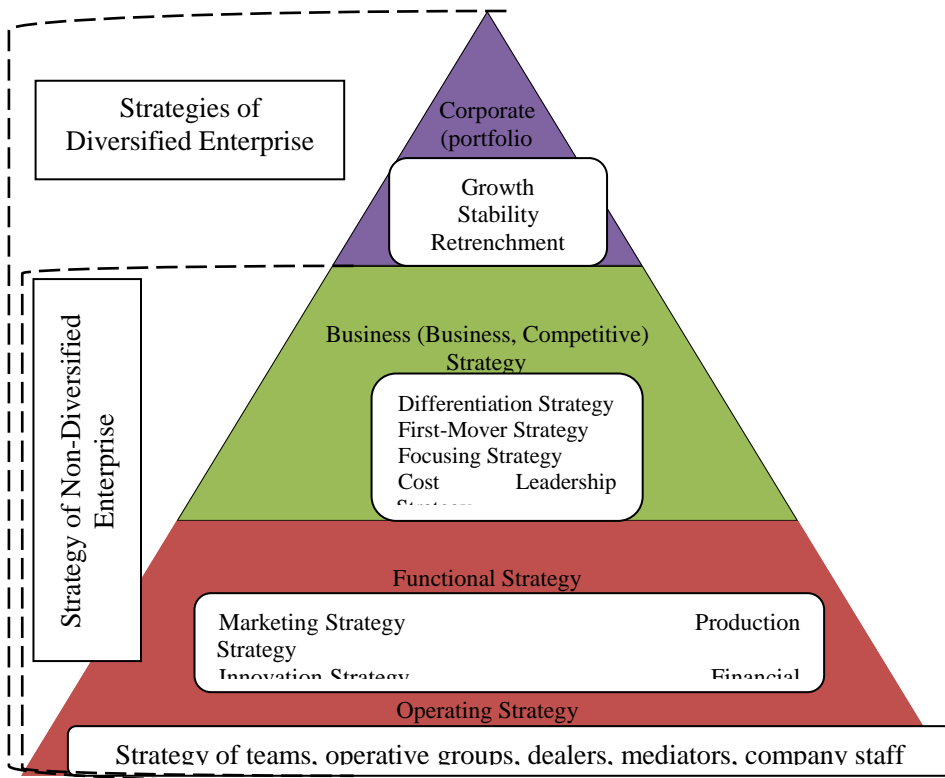


Fig.1. Strategic Pyramid of Enterprise
(formed by the author according to the research results)

Besides, one of the following basic development strategies is formed at the corporate level for a single-business company as well as for every business of multi-business company: growth, stability and retrenchment. This results from interpreting the corporate strategy as a strategy which describes a general direction of business development according to the stages of its life cycle (growth, stabilization, retrenchment).

Methods for the implementation of:

- growth strategy is business expansion by means of intensification (concentration of effort and possibilities on improving the existing product or strengthening positions in the existing market), integration (consolidation with other business structures), diversification (product expansion, entry into new market sectors);
- stability strategy – goal definition at the achieved level adjusted for inflation;
- retrenchment strategy – liquidation of company, “harvesting”, downsizing part of a company, cost reduction, etc.

The following basic competitive strategies are built at the business level: cost leadership; focusing; best cost; differentiation; first-mover.

The main methods of achieving the competitive advantage using the strategy of:

- cost leadership is a constant search for the ways to reduce costs without quality loss and deterioration of the product main characteristics;
- differentiation – creation of successful purchasing value by providing products with the characteristics (distinctive features), the use of which will guarantee the satisfaction of consumers’ specific needs (demands) at the expense of cost saving (namely, lower total costs or higher efficiency) and advantages which are not based on cost savings;
- focusing – deep specialization of enterprise focusing efforts on one market segment, certain product and buyer groups and low costs;
- first-mover – search for ways, possibilities and ideas to produce new products as well as consumers for them.

A set of strategies of functional subdivisions are formed at the functional level according to each strategy of the business level. The following strategies can refer here: marketing; production; innovation; financial, personnel; management; ecology, etc.

The following factors affect the formation of functional strategies:

- marketing strategy – requirements of corporate, competitive and functional strategies of enterprise; current market conditions; competitors’ behaviour; growing consumer demands and needs; development of dealer networks, representative offices, small-scale wholesale stores, etc.;
- production strategy - requirements of corporate, business and functional strategies, especially marketing; available resources, their quality and sources of replenishment in the long term; agreements, orders for goods; technology level and upgradability; high level of management personnel and labour force and possibilities of its improvement; flexibility of productions, fast change-over to new products of different quantity and quality; management organizational structure and culture; natural factors – geographical environment etc. (Saienko, 2007: 255-256);
- financial strategy - requirements of corporate, competitive and functional strategies of enterprise; insufficient level of monetary policy; low efficiency of fiscal policy; high polarization in incomes;
- innovation strategy - requirements of corporate and competitive strategies of enterprise; marketing research which gives generalized consumer demands to goods; sharp change of environment, competitors’ “technological breakthrough”, etc.;

- personnel strategy - requirements of corporate, competitive and functional strategies of enterprise; change of enterprise operation conditions; development of science and technology; new management systems; high unemployment; commercialization of education and science, etc.

The operating strategy corresponds to the operating level. This strategy determines how to control the key organizational subdivisions (plants, sales and purchase departments) and performance of operative tasks (purchase of material and technical resources, inventory control, repairs, transportation) (Thompson, Strickland, 1998: 83).

Taking into consideration the peculiarities of formation, methods of use and factors of impact on the strategies of different levels, a strategic pyramid can be developed by two methods "top-down" and "bottom-up".

As the research showed, however, there is no unity of academic view concerning the distinguished strategy types which resulted in different interpretation of the essence and content of corporate and business strategies.

Some authors, for example (Kuznetsov, Rozhkov, 2000; Markova, Kuznetsova, 1999; Tulenkov, 1997), identify the corporate strategy with the portfolio one; others on the contrary distinguish both the general corporate and portfolio strategies (Herasymchuk, 2000).

Since the corporate strategy (being business strategy for non-diversified companies) describes a general direction of business development and "consists of actions, used for strengthening its positions, and approaches" (Pastukhova, 2002; Filyppova, 2015), it is quite correct to call it portfolio. In this case only strategies formed at this level for diversified enterprises with different structure will be distinguished.

For example, a diversified enterprise with strategic structure consists only of strategic business units, the activity of which is aimed at achieving a single strategic direction or growth, or stability, or retrenchment, but by means of different methods of product differentiation, reduction of production costs, focusing on a certain market segment, etc. For the diversified enterprises with such structure, therefore, it is required to form the portfolio strategy of growth, stability or retrenchment at the corporate level while at the business level the strategies of cost leadership, differentiation, focusing, etc. should be formed for each strategic business unit (SBU) (fig.2). Each of the chosen business strategies is enforced with a set of relevant functional strategies. Within the framework of functional strategies the strategies of operating level are formed, the necessity of which is caused by the need to get relevant tasks and possible benefits from its performance to direct executors. This is a simple or classic strategic pyramid.

The suggested structures of strategic pyramids require specification of the essence of portfolio, business and functional strategies for each of them.

Thus, portfolio strategy for:

- simple strategic pyramid is a general strategy for a diversified enterprise which is developed at the corporate management level and determines a specific composition and structure of strategic business units (SBU), effective (synergetic) interrelations and methods of resource distribution between them;

- complex strategic pyramid is the strategy for a diversified enterprise which is developed at the corporate management level and determines a general business line reflected in the strategies of its strategic business units (SBU).

Business strategies for:

- simple strategic pyramid is a set of actions and approaches aimed at providing an effective activity in one specific business area (Mishchenko, 2004);

- complex strategic pyramid are the strategies subject to the corporate strategy, show the ways of achieving the direction chosen by it in strategic business units (SBU) and ways (directions) of development, specific role, sizes, methods of allocating resources of each business unit (BU) in order to support an effective implementation of the chosen direction for business development in general and of strategic business units (SBU) in particular.

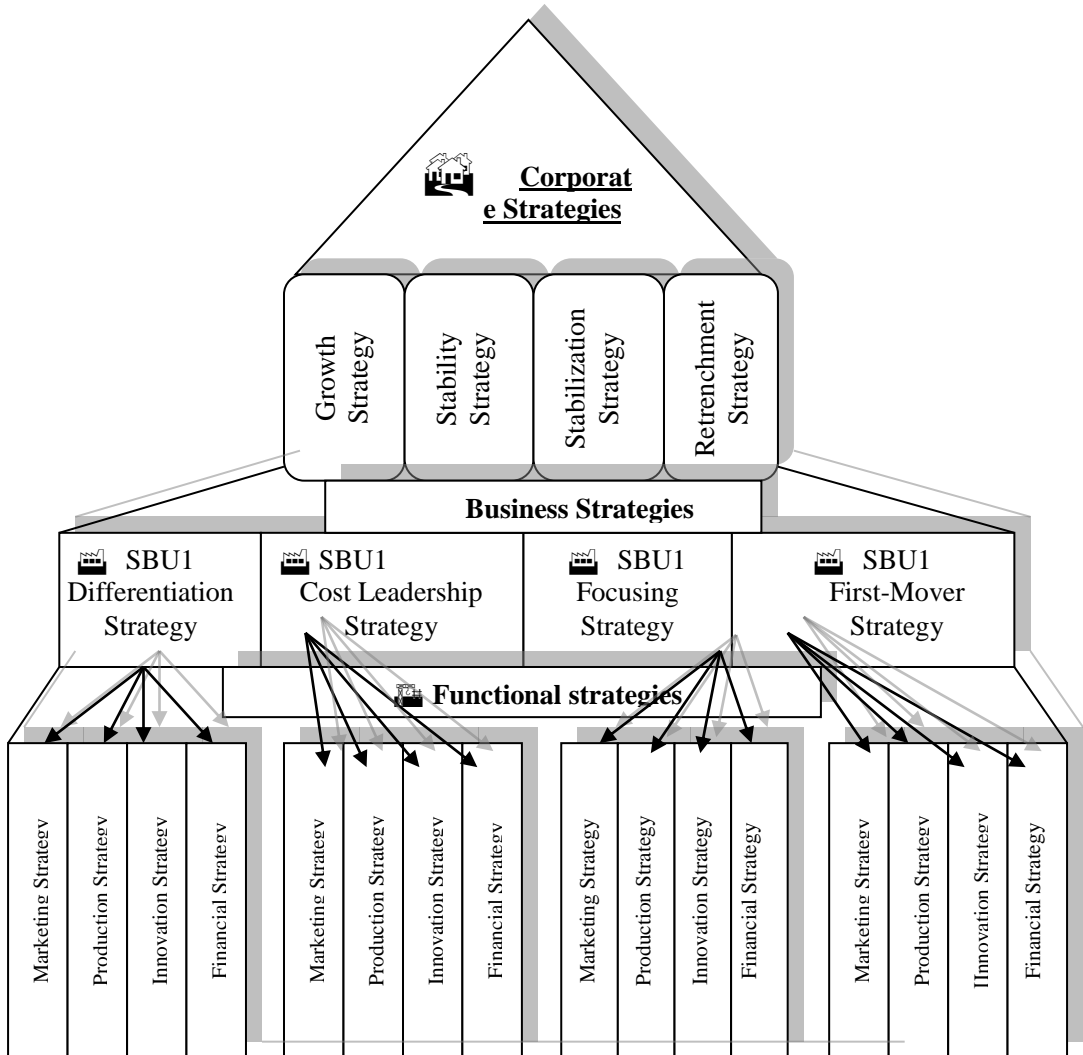


Fig.2. Simple Strategic Pyramid (own development)

For the rest diversified enterprises (with simple, combined and strategically oriented structure) it is expedient to form a complex strategic pyramid (fig.3). Its peculiarity is that at the corporate level the strategy of a general direction of business development is formed which is reflected in the strategy of every SBU. It can be the strategies of winding-up and liquidation; restructuring; recovery and economy; multinational diversification strategies, etc.

When forming a complex strategic pyramid for business units of a diversified enterprise, the strategies of growth, stability and retrenchment mutually agreed with the portfolio strategy are developed at the business level. The competitive strategies for certain areas of a relevant company business are also formed at this level of a complex strategic pyramid (BU). At that, a set of functional strategies can be developed, if required, both for each business line separately and for each business unit (SBU and BU) in general.

Functional strategy:

- management plan of actions of a separate subdivision dealing with a specific business area (Mishchenko, 2004: 218).

- combination of actions and approaches required to provide the accomplishment of strategic measures of the business strategy within a certain subdivision of a specific business area or of a strategic business unit and business unit in general.

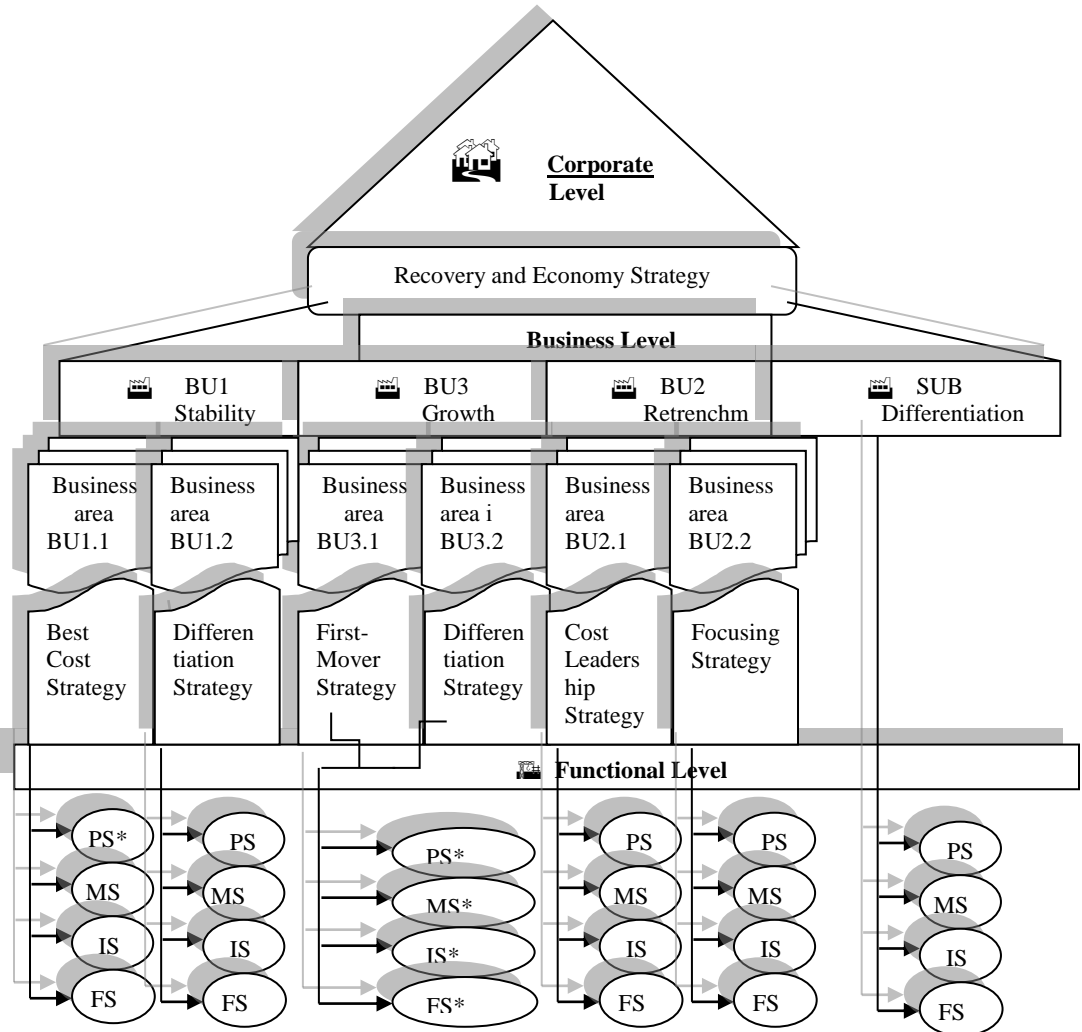


Fig.3. Example of Complex Strategic Pyramid (own development)

*PS - Production Strategy; MS - Marketing Strategy; IS - Innovation Strategy; FS - Financial Strategy

A strategic set of diversified enterprises even with similar structure of SBU and BU, however, will be different because of a different list and content of strategies of every level which depend on the state of external and internal environment as well as views of company top management.

“Zakhar Berkut” ski resort, which in 2009 became a diversified enterprise with strategic structure by having selected the horizontal diversification strategy, can be taken as an example. It consists of the following strategic business units (Zakhar Berkut: Ski Resort and Hotel and Tourist Complex in Slavske, n.d):

- SBU1 “sports and tourism complex” offering ski equipment rental services; special services (snowmobile riding, instructor services); ropeway services;

- SBU2 “transport services complex” offering services of everyday transfer of tourists on “Slavske – “Zakhar Berkut” route;

- SBU3 “hotel complex” – accommodation services; additional services (recreation services (sauna; hot tub; massage; gym; barbeque; gazebos); business services (conference hall; access to the Internet; telephone line for UTEL cards); personal services (hairdressing services; clothes washing and ironing; shoe cleaning; medical services; safe deposit services); entertainment services (indoor swimming pool; sightseeing programs; nightclub; horse riding; children’s playroom and playground; darts; mountain bikes rental; billiard; gaming machines; table tennis);

- SBU4 “food services complex” – restaurant, bars and cafés services.

Thus, in 2009 the ski resort chose the portfolio growth strategy enforced by the following business strategies for:

- SBU1 differentiation strategy;

- SBU2 first-mover strategy;

- SBU3 best cost strategy;

- SBU4 differentiation strategy.

The activity of SBU1 “sports and tourism complex”, however, largely depends on weather conditions and even the use of synergetic strategic set in 2012 which provided for the synergy (enhancement) at all levels of strategy hierarchy did not help to fully implement the planned strategic measures of the growth strategy for this strategic business unit.

The possibility of alternate switching-off and moving employees from one surface lift to another became an efficient solution to seasonality of the services of this strategic business unit. In other words, the “sports and tourism complex” business unit required the use of another general strategy which was not the growth one. The same also referred to other business units of this resort. For example, the range of services of the “food services complex” business unit, which apart from the restaurant also includes fast food facilities located at the terminals for intermediate lift, was severely reduced with the end of the season. The reduction of the scope of services of this business unit was higher than of the sports and tourist complex facilities, which is connected with the hotel and ropeway running through these food facilities.

Thus, till 2012 “Zakhar Berkut” ski resort formed a simple strategic pyramid and after 2012 started to use a complex strategic pyramid, “hotel complex”, at that, remained a strategic business unit and the rest became business units.

The portfolio strategy of “Zakhar Berkut” ski resort – growth –manifested itself at the business level in the differentiation strategy for the “hotel complex” strategic business unit which was implemented by constructing a complex of cottages, gazebos and swimming pool in the territory of the resort. The “sports and tourism complex” business unit used the

retrenchment strategy and while the “food services complex” and “transport services complex” business units used the stability strategy.

The following strategies were applied to business areas of each BU at the business level:

- to “ski equipment rental services” area of the “sports and tourism complex” business unit 1 – best cost strategy;
- to “special services” area of BU1 – cost leadership strategy;
- to “ropeway services” area of BU1 – focusing at low cost strategy;
- to “transport services complex” business unit 2 – differentiation strategy by using new types of transport and conducting different types of excursions;
 - to cafés and bars – best cost strategy;
 - to restaurant – first-mover strategy.

Together all components of “Zakhar Berkut” ski resort ensured the implementation of a general strategy of growth, because even if one of the business units would be missing, the scope of services of the hotel complex would be significantly lower (as evidenced by the range of services of this resort in 2007 when only the hotel was working (Business Plan of “Zakhar Berkut” Ski Resort Development, 2004)).

Conclusions and suggestions

The division of a diversified enterprise into strategic business units and business units, their structure and interrelations caused the necessity of constructing complex and simple strategic pyramids. A simple strategic pyramid is intended for enterprises with strategic structure (all business units being strategic); at the corporate level it includes growth, stability and retrenchment strategies and at the business level it comprises cost leadership, differentiation, focusing, first-mover and best cost strategies. The functional level for both pyramids consists of the same strategies: marketing; production; financial; innovation, etc. The difference in the set of functional strategies is that in a simple strategic pyramid a set of functional strategies is developed within the framework of a certain business strategy while in a complex strategic pyramid – within the strategy of a certain direction of a relevant strategic business unit and business unit in particular and within these SBU and BU in general.

A complex strategic pyramid is developed for diversified enterprises with a simple, combined and strategically oriented structure. According to this pyramid the following strategies are developed at the corporate level: winding-up and liquidation; restructuring; recovery and economy; multinational diversification strategies, etc. At the business level the growth, stability and retrenchment strategies are formed for every business unit while the cost leadership, differentiation, focusing and first-mover, etc. strategies are formed for every strategic business unit and every direction within a specific business unit.

The suggested structures of strategic pyramids caused the need to specify the essence of strategies at different levels.

The formation of the behavior strategy of “Zakhar Berkut” ski resort in the market confirmed the necessity of building simple and complex strategic pyramids.

The construction of a strategic pyramid for a diversified enterprise according to the given recommendations will ensure an efficient development of an enterprise as an integral structure, increase of its long-term competitive advantage as well as capturing and holding strong positions in the market.

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