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## Methodology of Formation and Realization of Competitive Strategy of Machine Building Enterprises

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### **Abstract:**

*The article views approaches of the Russian and foreign scientists to development and realization of competitive strategy of enterprises. Necessity and importance of development of competitive strategy, oriented at formation of competitive advantages, methods, and means of competitive struggle, predetermined by increased competition and growth of consumers' requirements to product quality. This process plays a very important role in machine building. Machine building is one of the strategically important spheres which ensure development and security of the country. At the same time, Russian machine building lags behind most of developed countries as to the level of development. Main reasons for such lagging behind are: inaccessibility of credit means, low investment and innovational provision, low qualification of management, and old production and technical base. In order to overcome the existing gap, it is necessary to develop long-term competitive strategy of development of machine building enterprises which ensures conquering certain markets of specific products. Based on the analysis of definitions of scientists and specialists in the sphere of strategic management, the notion "competitive strategy of enterprise" is specified. Methodology of formation and realization of enterprise's strategy are viewed in detail. Specific examples of missions, strategic vision, and strategic goals of leading enterprises of machine building are given. Significance of development of competitive strategy for effective functioning and development of enterprise is shown. Features which distinguish the process of development and realization of competitive strategy from models of strategic planning that exist in scientific literature are determined. It is proved that development of competitive strategy requires paying special attention to analysis of competitive potential of enterprise and level of its competitive activity – for the purpose of creation of effective strategy which would fully express specifics of activities and individuality of enterprise.*

**Key Words:** *competitive strategy, methodology, enterprise mission, production effectiveness, strategic vision.*

**JEL Classification:** *Q 400, Q 430*

### **Introduction**

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At present, actuality of development of competitive strategy of enterprise is obvious. Competitive strategy is a highly effective market tool for increase of competitiveness of enterprise. The main goal of competitive strategy is formation of competitive advantages, methods, and means for conduct of competitive struggle, which would allow enterprise to function in the market in long term and in a stable basis [Egorova, A.O., Kuznetsov, V.P. 2014].

Issues of theory of competition, strategic management, and planning are covered in works of many Russian and foreign scientists/specialists: G.L. Azoeva, D. Aacker, R. Akoff, F. Analois, I. Ansoff, K. Bowman, O.S. Vikhanskiy, A.L. Gaponenko, J. Johnson, A.T. Zuba, R. Kaplan, B. Karloff, K. Keller, D. Kollis, F. Contler, G.B. Kleiner, J.-J. Labmen, Y.N. Lapygin, Y.A. Malenkov, V.D. Markov, M. Meskon, G. Mintsberg, V.N. Parakhin, A.N. Petrov, M. Porter, Y.B. Rubina, N.A. Savelyeva, A. Tompson, J. Trout, L.R. Tuktarov, R.A. Fatkhutdinov, V.I. Shilkov, etc.

The purpose of the research is specification of the notion “competitive strategy of enterprise” and study of methodology of development and realization of enterprise’s strategy in highly competitive market environment. In order to achieve the set purpose, the authors have solved the following tasks: 1) approaches of Russian and foreign scientists to the notion “competitive strategy” are studied; 2) opinions of leading scientists and specialists on the process of formation of enterprise’s competitive strategy are viewed.

#### Theoretical foundations of research

Despite thorough theoretical elaboration of the issues of formation and realization of competitive strategy of enterprises, the practical aspects of this problem are not studied. That’s why there is a need for scientific research of the issues of methodological provision of development and realization of competitive strategy according to peculiarities of functioning of enterprises in competitive environment.

#### Methodology of research

In the process of the research, the following general scientific methods were used: induction and deduction, analysis and synthesis, classification and grouping, as well as special methods: situational, comparative, and economic & statistical analysis, expert & analytical and strategic analysis.

### **1. Specification of the notion “competitive strategy of enterprise”**

Theorists and practitioners of strategic management offer several approaches to the notion of competitive strategy [Egorova, A.O., Kuznetsov, V.P. 2014].

Founder of strategic management, I. Ansoff, distinguishes two interconnected strategies: portfolio and competitive. Competitive strategy determines various approaches, with the help of which company acts in each strategic sphere.

According to N.I. Gerchikova, competitive strategy is aimed at reduction of production costs, individualization, and increase of product quality, as well as using segmentation for determining new sectors of activities in specific markets.

M. Porter, the Professor of Harvard Business School, states that competitive strategy supposes such positioning of business that will allow increasing its potential to maximum, which will distinguish it from rivals.

N.A. Savelyeva states that competitive strategies should provide achievement of stable competitive advantages for enterprise. Competitive advantages occupy a central role in the process of formation of competitive strategies.

According to V.I. Shilkov, competitive strategy determines approaches, with the help of which enterprise will act in each strategic sphere. The author considers that if company is involved in one type of business, competitive strategy is a part of corporate strategic planning. If organization includes several strategic departments, each of them develops own targeted strategy.

F. Anlois states that competitive strategy is search for favorable competitive position in the sphere which is main ground for competition.

In our opinion, competitive strategy is a comprehensive system of actions aimed at achievement of strategic goals of enterprise's development in view of influence of external and internal environment, for achievement and support fir competitiveness of economic subject in long-term.

Analysis of foreign and Russian literature on strategic management showed that there are various opinions on the process of formation and implementation of enterprise's strategy [I. Prosvirina, Y. Rezepin, 2014].

A.T. Zub and V.I. Shilkov consider that the process of formation and implementation of the strategy should start from determination of goals and tasks. According to O.S. Vikhanskiy, A.N. Naumov, A.I. Panov, and N.A. Savelyeva, the initial process of strategic planning is analysis of internal and external environment.

## **2. Formation of methodology of development and realization of enterprise's competitive strategy**

Traditionally, methodology of development and realization of strategy includes the following stages [Olisaeva A., 2014]: 1) Strategic analysis of external and internal environment of enterprise; 2) Formulation of possible strategic alternatives; 3) Selection of strategy type; 4) Formulation of mission and strategic vision; 5) Development of enterprise's strategic goals; 6) Strategy realization; 7) Evaluation and control of strategy realization.

Let us view these stages in detail.

*1 stage: Strategic analysis of external and internal environment of enterprise*

Analysis of external environment of enterprise is aimed at determination of factors of external environment which influence or can influence its functioning. Analysis of external business environment includes analysis of micro-environment (direct influence environment) and macro-environment (indirect influence environment) of enterprise. Main components of micro-environment of enterprise are buyers, suppliers, rivals, labor resources, laws, and state bodies. Analysis of the state of micro-environment supposes the use of PEST-analysis, the main purpose of which is evaluation of influence of political, economic, social, and technological factors of macro-environment on results of current and future activities of enterprise.

During development of enterprise's development strategy, managers have to analyze not only external but internal environment of enterprise [Larisa Fomchenkova, Daria Shutova, 2014].

Analysis of internal environment opens possibilities and potential, on which enterprise can count in competitive struggle during the process of achievement of its goals. According to L.F. Sukhodoeva and V.G. Rozhdestvenskiy, analysis of internal environment of enterprise includes evaluation of production, organizational, HR, marketing, and financial possibilities.

More detailed analysis of internal environment of enterprise uses SWOT-analysis, the main goal of which is determination of strong and weak sides of enterprise, as well as possibilities and threats from its closest surroundings. SWOT-analysis should be started from determination of main factors (production, organizational, HR, marketing, and financial) which directly influence enterprise's activities.

Thus, analysis of external and internal environment is a complicated process which requires attentive tracking of changes which take place in internal and external environment, determination of connection between strong and weak sides of enterprise, and possibilities and threats of external environment.

*2 stage: Formulation of possible strategic alternatives*

Formation of strategic alternatives is the main aspect of the process of formation and realization of strategy. There could be many strategic alternatives, but they are limited in practice by only for main ones: limited growth, growth, reduction, and combination of these three strategies [Vodachek, L., 2002].

*3 stage: Selection of strategy type*

At this stage, a strategic decision on selection of basic (sample) strategy is made in view of analysis of external and internal environment of enterprise and evaluation of strategic alternatives.

At present, most of large enterprises of old spheres of industry use the strategy of limited growth. This strategy is peculiar for determination of goals from achieved level, corrected in view of inflation. Strategies of (concentrated, integrated, differentiated) growth are peculiar for enterprises of dynamically developing spheres which strive for diversification of their activities. Strategies of reduction (liquidation, “crop collection”, restructuring) use enterprises for the purpose of reducing a part of their activities for the purpose of increasing profits. Strategies of combination of the above alternatives use enterprises which act actively in several spheres [Ivashina, V., Scharfstein, D., 2010].

Thus, the task of enterprise managers consists in selection of the most suitable strategy in view of specific conditions and goals of business.

*4 stage: Formulation of strategic vision and mission of enterprise*

Effectiveness of activities of enterprise and its competitiveness depend on development of strategic vision and enterprise’s mission.

Strategic vision is managers’ opinion on which types of activities the enterprise will be involved in in near future. In general form, strategic vision is enterprise’s purpose. Role of strategic vision consists in provision of motivation of managers and employees of enterprise for long-term perspective.

Let us view examples of formulations of strategic vision of leading enterprises of the Russian machine building (Table 1).

**Table 1.** Strategic vision of Russian machine building enterprises

Enterprise	Strategic vision
GAZ OJSC	“Become independent player in the global car industry, as a manufacturer and supplier of solutions which offer the best price/quality ratio in targeted markets of commercial cars, road-building machinery, and power machines”
Chelyabinsk Tractor Factory – URALTRAK LLC	“Make CTF-Uraltrak LLC a model enterprise” “Become main manufacturer of tractor machinery in Russia and countries of the near abroad”
KAMAZ OJSC	KAMAZ is a national sectorial leader and large international player, partner of Daimler. KAMAZ is an adaptive, effective, and global company Adaptability is company’s capability for changing business parameters depending on market situation, controlling the volumes of production, production floors, and personnel number.
Severstal-Avto (Sollers) OJSC	Severstal-Avto OJSC is a Russian vertically integrated company. We strive to become a leader in creation, based on the following key elements: <ul style="list-style-type: none"> <li>• People</li> </ul>

	<ul style="list-style-type: none"> <li>• Perfection</li> <li>• Unity</li> </ul>
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Clearly formulated strategic vision of enterprises significantly reduces the risk of accidental and groundless decisions and ensures coordination of policy of enterprise's department with general policy of enterprise.

Enterprise mission is the main general goal, a clearly expressed reason for its existence. It opens the sense of enterprise's existence, determines values and principles, according to which enterprise performs its mission. Mission sets main directions of enterprise's movements in view of its external and internal conditions [Van Horn, J. K. Vahovich, J. M., 2003].

Let us view examples of formulations of missions of leading machine building enterprises of the RF (Table 2).

**Table 2.** Missions of machine building enterprises of the RF

<b>Enterprise</b>	<b>Mission</b>
AvtoVAZ OJSC	We create high-quality cars at reasonable prices for our clients, earning stable profit for shareholders, improving well-being of our employees, and increasing the value of our business for our Motherland's sake
KAMAZ OJSC	KAMAZ was built by the whole country – it is the basis of transport security and pride of Russia. Forecasting the needs, we deliver automotive vehicles and brand service, helping clients to achieve inspiring goals. KAMAZ is a socially responsible partner which works for long-term interests of shareholders and well-being of employees.
GAZ OJSC	Provision of commercial automotive transport solution for professional carriers with optimal ratio “car ownership cost – profitability.
Transmachholding CJSC	We create possibilities for full opening of creative and professional potential of employees. We strive for preservation of hundred-year traditions of the Russian transport machine building, provision of its dynamic development, and correspondence to modern world. That's why Transmachholding pays large attention to implementation of new standards of quality and safety, new technologies in production and production relations.
OPK OBORONPROM OJSC	As integration center and member of state program for reforming of military industrial complex of Russia, corporation is responsible for economic development of enterprises, increase of their scientific and technical potential, and satisfaction of market needs for manufactured products and services.

Thus, enterprise's mission should be formulated clearly, so it is understandable for all subjects which cooperate with enterprise. Clearly formulated mission shows enterprise's difference from other similar enterprises.

*5 stage: Development of enterprise's strategic goals*

Based on the main goal (mission), strategic goals of enterprise are developed. Strategic goals are key results which enterprise strives to achieve in perspective. Thus, A.A. Thompson and A.J. Strickland distinguish the following strategic goals: increase of market share, increase of product quality, improvement of customer service, expansion of product nomenclature, increase of competitiveness in market, and full satisfaction of consumers' needs.

As a rule, strategic goals of enterprise are developed at two levels: corporate (for enterprise on the whole) and functional (for functional departments of enterprise) [Stepan Istomin, Evgenia Istomina, 2014].

A.L. Gaponenko and A.P. Pankrukhin state that strategic goals have to possess the following characteristics: acceptability, measurability, clearness in time, and achievability.

Let us view examples of formulations of strategic goals of machine building enterprises (Table 3).

**Table 3.** Strategic goals of machine building enterprises

Enterprise	Strategic goal
JSC Concern VKO "Almaz-Antey"	<ul style="list-style-type: none"> <li>• Fulfillment of state military program, support for mobilization capacities, and expansion of volumes of foreign economic activities;</li> <li>• Increase of R&amp;D, production &amp; technological, and economic potential of subsidiary and dependent companies of the concern;</li> <li>• Creation of conditions of sustainable development of subsidiary and dependent companies of the econcern, development and manufacture of high-tech products of military, double, and civil purpose, which are competitive in internal and external markets.</li> </ul>
TVEL OJSC	<ul style="list-style-type: none"> <li>• Conquering 28% of the global market of products and services of initial stage of nuclear fuel cycle by 2030 by means of issue of products with high consumer attributes which allow TVEL to keep and expand its presence in the market of nuclear fuel.</li> </ul>
OMZ State Concern	<ul style="list-style-type: none"> <li>• Maximization of business cost for shareholders;</li> <li>• Preserve leading positions in the market of main technological equipment of the 1<sup>st</sup> contour for atomic power</li> </ul>



	stations; <ul style="list-style-type: none"><li>• Increase the share of equipment for petrochemical industry and oil and gas processing in Russia;</li><li>• Preserve leading positions in the Russian market of heavy electrical career excavators.</li></ul>
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Thus, strategic goals are an important part of the process of strategic planning and management of enterprise. Efficiency of strategic goals depends on their right formulation, knowledge of them, and stimulation of their fulfillment at the whole enterprise.

#### *6 stage: Strategy realization*

In modern economic literature, there are various opinions on the problem of competitive strategy realization. There is an opinion that the task of strategy realization consists in understanding what should be done for strategy to work and the planned terms of its fulfillment are observed.

According to Z.P. Rumyantseva, strategy realization is daily time-consuming work, oriented at fulfillment of specific actions for performance of organizational changes which often concern interests of all employees of organization [Egorova, A.O., Kuznetsov, V.P. 2014].

A.P. Egorshin distinguishes three stages of strategy realization:

- 1<sup>st</sup> stage: Mobilization – time period, aimed at stimulation of employees for actions by explaining the necessity for transformations, creation of team around leader, and explanation of strategy (3-6 months);
- 2<sup>nd</sup> stage: Measures: development of successive and interconnected actions at the highest organizational level for coordination of the process of transformations (6-12 months);
- 3<sup>rd</sup> stage: Realization-transformation of strategy into daily work process and corporate culture (6-12 months).

Process of realization of strategy is organized by enterprise's management, which understands necessity for transformations: it is responsible for its contribution into strategy implementation, develops structured program of transformation, and motivates employees for performance of transformation processes [Sinyagin, L., 2008].

#### *7 stage: Evaluation and control for strategy realization*

Evaluation and control for strategy realization are a final stage of the process of strategy realization.

Professor A.I. Panov thinks that strategic control is a special type of organizational control which consists in observation over the process of strategic management and its evaluation for the purpose of right functioning.



N.A. Savelyeva distinguishes four stages of strategic control:

1<sup>st</sup> stage: Determination of totality of indicators, according to which evaluation of realization of strategy will be performed. Determination of “normative” for each indicator, i.e., value of indicators which should be achieved within the set period.

2<sup>nd</sup> stage: Creation of the system of measurement and tracking of the state of control parameters (market control, exit control, bureaucratic control, control from personnel).

3<sup>rd</sup> stage: Comparing real parameters with normative ones. Determination of acceptability of the found deviations from the standard normative.

4<sup>th</sup> stage: Evaluation of results of comparison and making decisions on correcting influence.

Evaluation of strategy performance supposes comparison of results of strategy realization with the level of goal achievement. During evaluation of strategy realization, the following criteria are used: coordination with requirements of external and internal environment, succession of strategy realization, acceptability for stakeholders, realizability of strategy, and advantages as to rivals [N. Polygalina, V. Polygalin, A. Marinina, 2014].

The above methodology of development and realization of competitive strategy can be used in practical activities of industrial enterprises in the process of formation of organizational and economic mechanism of development and realization of competitive strategy of development.

## Conclusions

The conducted research allowed specifying the notion “competitive strategy of enterprise” on the basis of analysis of definitions of Russian and foreign scientists in the sphere of strategic management.

Attributes which distinguish the process of development and realization from models of strategic planning existing in scientific models are formulated.

Firstly, during strategic analysis of enterprise, special attention is paid to evaluation of competitive potential of enterprise, the level and extent of its competitive activities. In our opinion, depending on the current state of competitive potential of enterprise, one or another competitive strategy is selected. During development of traditional model of strategic planning, main emphasis is put on analysis and evaluation of resource potential of enterprise – at that, level of its competitive activity and sustainability is not paid enough attention.

Secondly, strategic vision and mission of competitively oriented enterprise should include devotion to competitive struggle and focus on development and realization of new types of products. In our opinion, mission of enterprise’s competitive

strategy should include the fact that growth of competitive activity of enterprises increases its social and public significance.

Thirdly, effectiveness of realization of competitive strategy is performed through analysis and evaluation of key indicators of enterprise's activities.

Thus, during development and realization of enterprise's strategy, it is necessary to pay attention to each of the above stages, in order to create effective strategy which would fully reflect business specifics, enterprise's individuality, and market conditions.

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