



STRATEGIC MANAGEMENT IN UKRAINIAN HOLDING COMPANIES: THE LEVEL OF MATURITY AND TRENDS OF DEVELOPMENT

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Abstract

Article presents the results of research of the applied aspects of the strategic management of holding companies in Ukraine. There has been specified the strategic stakeholders in the strategic management process of the holdings, compared the specifics of transformation of the role of strategic stakeholders in Ukraine, Russia and the EU. There has been identified the state of strategic management in Ukrainian holdings, revealed interdependence between the level of maturity of strategic systems, project management and their interdependence in terms of their the impact on the productivity of the holding companies. This substantiates the need for a project-based approach to strategic management of the holding companies in order to increase the effectiveness of their activities.

Keywords: strategic management, project management maturity, strategic stakeholders.

Introduction

Contemporary trends in Ukrainian business structures suggest a conscious transition from an authoritarian administration through a financial control to a strategic business management. The high growth rates of companies, changes in ownership, increasing requirements for managers, encourage the companies to introduce new management systems in addition to the application of appropriate management technologies.

The problem of capabilities and effectiveness of adoption of strategic management modern tools by large corporate structures there has been investigated by such researchers as Guth (1976), Kenny (2006), Koch (2000), Llewellyn (2005), Whittington (2001, 2003), Usmani (2012) and others. Until recently there have been worked out only a few matters of strategic analysis, corporate finance and investments management, as well as a number of legal aspects of the holdings functioning.

Yet, the roots of success or failure of strategic decisions of the holding often lie in the coordination of values and targets of strategic stakeholders, located on several levels – the levels of the owners, the levels of the top management of the parent company, the levels of management of the subsidiaries and other business units of the holding.

This distinctive feature of a holding form of business organisation has defined the purpose of this article – to highlight the key factors contributing to the effectiveness of the strategic management of Ukrainian holdings – and predetermined the research specific objectives: (a) to examine the distribution of different groups of stakeholders and the delineation of their roles in making and implementing strategic decisions of the holding management (b) determine maturity stage of the strategic management holding company, (c) investigate the relation between the degree of strategic systems maturity along with project management of the holding companies and their performance indicators.

Methods

Participants

The survey includes data of 190 Ukrainian formal and non-formal holding companies from 14 industries of Ukraine, which ensures representativeness of the sample and its sufficient amount. The survey was conducted among 329 members of senior management (at the level of general and functional directors) of the parent and subsidiary companies of the holding, as well as the owners, who performed management functions.

Procedure

The data collection was conducted by using the questionnaires and interviews with the managers of the holding structures and covers the data for 5 years (2006 – 2011). The questionnaires covered the three vector cut: (1) specifying the types of strategic stakeholders of the holding, (2) using the procedures, methods and techniques of the project management, (3) determining the level of the strategic management maturity of the company. The data collected processing was carried out by using the statistical analysis methods and mathematical modelling through programs SPSS for Windows and MS Excel. The nature of the information has been influenced by a number of objective (changes in the structure of the Ukrainian economy, the processes of transformation of the enterprises ownership, changes in legislative norms, feasibility of new business schemes) and subjective factors (the access to the information and the publicity of companies, time interval), which are within the non-system errors, providing the necessary accuracy of the information.

Field Study Findings

The scope of our study was to specify the range of the strategic stakeholders in the holding company management. According to the modern theory of the organisation's strategy, to make the successful strategic decisions the corporation is expected to consider the interests of all stakeholders, who respectively have different target views. We can divide all stakeholders considering their role in the process of the strategic management and the degree of influence on the strategic decisions of the holding into 2 groups:

1) "The strategic drivers" – the stakeholders who are directly involved in the system / process of the strategic management of the holding company. They identify the strategic goals for the holding structure, develop and implement the strategic decisions and in this manner affect the external drivers.

2) "Strategic receivers" – the stakeholders, who are the environment in which the strategic decisions are put into operation. They are able to support, perceive neutrally or prevent the strategy implementation of the holding. Actually, they form the possibilities and limitations of the successful implementation of strategic decisions of the holding.

In turn, the various groups of stakeholders may be represented at three levels of the strategic communication: the inner stakeholders, the internal environment stakeholders and the stakeholders of external environment.

Table 1: Distribution of key stakeholders of the holding at different levels of strategic communication

Levels of the strategic communication	Groups of the strategic stakeholders	
	„Strategic Drivers ”	„Strategic Receivers ”
<i>Inner stakeholders</i>	The leaders of the parent company, internal owners (parent company)	The leaders of subsidiaries Employees of subsidiaries, Net owners (third party)
<i>Mezo-level stakeholders</i>	Inner net owners, with the combination of management functions, Top Management of the Holding	Top Management of the Holding The Holding Employees Net owners (third party) Partners within the company (customers, suppliers, dealers, distributors, creditors)
<i>External stakeholders</i>	External owners who have sufficient authority	The society, The state, External partners Minority owners

Our studies conducted are evidence for the fact that among the stakeholders of the holding companies the most influential are the owners and management of the companies, including controlling owners, who perform the functions of the management and are the members of the Board of Directors (Board) and the net (third party) owners (institutional investors). Moreover, the level of interference of the subsidiaries management in the group strategic management in the years 2006 – 2011 increased significantly: from 37% to 54% at the stage of formulation the strategic mission and goals, from 87% to 94% at the stage of implementation of the group strategy and from 35% to 74% at the stage of monitoring the effectiveness of the selected strategic decisions of the holding.

Such groups of stakeholders as employees, partners (suppliers, customers, distributors, the society, the state) in framing and implementing strategies play an indirect role which might be schematically represented as a matrix "The power level / the degree of interference" (Fig. 1) . The matrix enables to specify the strategy for strategic interaction of different groups of stakeholders and the degree of consideration of benchmarks for developing and implementing the strategy of the holding.

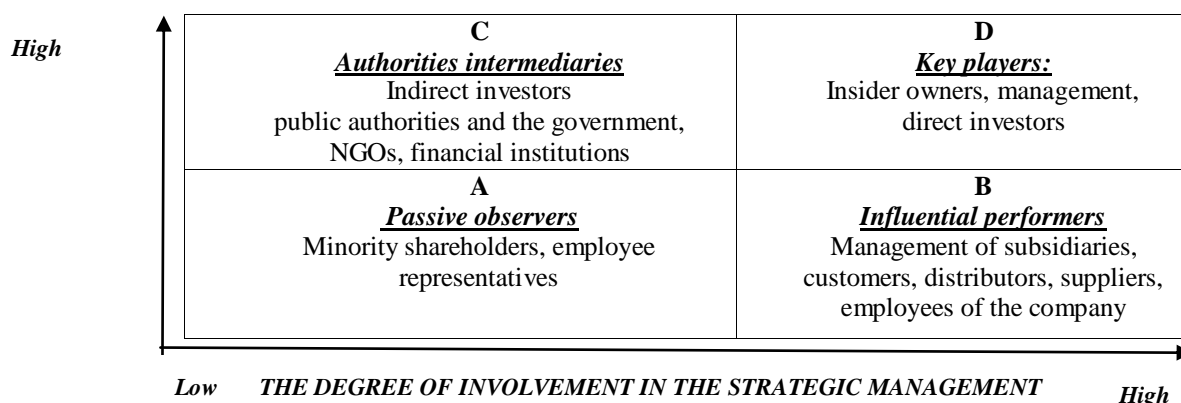


Figure 1. Holding's strategic stakeholders mapping: Power/ Strategic Management Involvement Matrix

The matrix makes it possible to specify the strategy for interaction between different groups of the strategic stakeholders and the degree of consideration the benchmarks for developing and implementing the strategy of the holding. The key strategic stakeholders ("**key players**" in the process of strategic management of the holding company) are the internal holders, the management of the holding's parent company and direct investors (the third party) (cell **D**). It is their position must first be taken into account in the formation and evaluation of the strategy of the holding, as they are the main drivers of the strategic management of the company. The stakeholders management strategy of this type has been formulated by us as "the efficiency increase of the key players."

The most "difficult", in our opinion, there should be considered the stakeholders located in cell **C** ("**authorities intermediaries**"), because despite their passivity, they tend to actively influence the strategy in case of the crisis condition of the organisation or force majeure situation. It is therefore important to evaluate the possible strategic behavior patterns of such stakeholders and an possibility for them to move from segment **D** (strategy of "strengthening forward") in order to harmonise their power-oriented goals with the target goals of the other stakeholders – to the strategy of "maximum satisfaction" of their information requirements.

The role of the stakeholder group **B** ("**influential performers**") is crucial to the successful implementation of the corporate strategy, because they are the main strategic "receivers" (or "non-receivers") of the strategic decisions within the holding. Due to the "vagueness" of the governance and management functions in Ukrainian holdings, boundary between key players and influential performers is to expand their influence through the involvement in the development process and approval of the strategy of the holding and transferring the strategic drivers functions to them.

The role of the group **A** stakeholders ("**passive observers**") is important in so far as is likely it is for them to join the strategic stakeholders **B** and **C** and performing the functions as certain (a) facilitators or moderators of the strategic changes in the organisation, (b) blocking the decisions of the other groups of stakeholders. In particular, manipulation of votes of minority shareholders, resolutions of the workforce union, community protests and barriers set by the government and authority and local administrations often become the instruments of redistribution of ownership of the holdings and change their strategic orientation. The strategy of handling them is to encourage them to be positive "Strategic receivers" or minimisation of their powers (up to dismissing them from the structure of the company) in case of opposition the general strategy of the holding.

Among the major problems of the strategic management effectiveness of the holdings is the position coordination of the owner and manager in terms of making strategic decisions (see Table 2).

Table 2: The level of delegation of the authority on strategic decision-making from the owner to the manager (Ukrainian and European experience)

The level of delegation of the authority from the owner to the manager	Percentage of a number of respondents, %		
	Ukraine (our research, 2011)	Russia (RosExpert, 2010)	The EU countries (PwC, 2010)
Top manager undertakes a crucial responsibility for business development (including decisions regarding mergers, reorganisation and liquidation of business)	18,2	14,0	41,9
Top manager performs two functions: the owner and manager	46,3	29,0	12,1
Top manager is involved in the development of strategy of business development, depending on the level of their professional competence and initiative	29,8	54,0	45,2
Top manager performs only operational management and is not involved in the strategic management	5,7	3,0	0,8
Total:	100,0	100,0	100,0

This table shows that the share of senior managers whose role is limited to operational control in Ukraine is sufficient to conclude the existence of pseudo-managers, who in fact are not top managers, but only the performers of the strategic decisions of the owners. The proportion of the hired top managers is relatively small, whose primary responsibility the holding development (in Ukraine is 2.4 times less than in the EU countries). At the same time, the share of Ukrainian managers involved in the strategic management in accordance with the level of their professional competence and initiatives, is significantly lower than in Russia and the EU. This fact is the evidence for, on the one hand, the reluctance of the owners of the domestic holdings to divide the functions of ownership and management, and on the other hand, the unreadiness of Ukrainian managers for effective management, a lack of successful businesses managing experience and a lack of ambitions and initiatives.

Another aspect of the analysis of the Ukrainian holdings was specification of maturity levels of strategic management systems (SSA). To develop recommendations for the implementation of the strategic management of the company there should be investigated at what stage of maturity a system of strategic management is in the company. In total, we have specified 4 levels (stages) of maturity SSA of the holding structures (Figure 2).

Levels of the Strategic Management System Maturity	TERMS OF TRANSITION FOR THE NEXT LEVEL
I LEVEL Lack of a perceived need for the strategic management system and a formalised system of the strategic management (70% of Ukrainian holdings)	– awareness of the need for the introduction of strategic management system; – development of measures to create a system of strategic management; – increasing the priority of the strategic objectives and achieving the strategic goals of the holding; – "trigger" the mechanism analysis of the information about the external and internal environment of the functioning of companies
II LEVEL Lack of the strategy as a set of formal goals and action plans to achieve it, the current strategy is a statement of ideas (19% of Ukrainian holdings)	- developing skills in using technologies of the strategic analysis; - overcoming the barrier of transition from analysis to implementation, - bringing the overall corporate strategy to a clear plan of action (Actions Plan). - meeting the strategic objectives and achieve the strategic goals of the holding;
III LEVEL Having formalised strategy, but the lack of a mechanism for its implementation (10% of Ukrainian holdings)	– the creation of the organisational support for the successful implementation of the strategy; - taking steps to involve in the process of the strategy realization all the key stakeholders of the holding; - conducting training, consulting and information activities to implement the strategy, the creation of an appropriate system of incentives; - taking corrective actions in case of sudden changes.
IV LEVEL Effectively functioning system of design and implementation of portfolio of the holding strategies	- continuous processes improvement of the strategic management of the holding

Figure 2. Maturity levels of the strategic management systems in the holdings (Skytova, 2004)

At the first level there is no formalised system of strategic management of the holding company. There are also no clear unified regulatory procedures, tools, techniques for making strategic decisions and their implementation, each company in the holding structure solves these problems for itself. To move on to the next level of maturity in accordance with SSA in the company there should take place conceptual transformations in the corporate mindset, beginning from understanding the need to introduce the strategic management system ("without it we will not survive") to "trigger" the mechanism for a strategic analysis of the internal capacity and environmental performance. At the first level of maturity (or rather - immaturity) of SSA or transitioning to another level these days there are about 70% of Ukrainian holdings.

At the second level there is no strategy of a holding structure. After understanding the need to introduce a system of the strategic management and analysis of the environment, the holding begins to develop the strategy and meets the problem of lack of formal tools for optimal strategic choices and achieving 100% effective strategy. Thus, as our research illustrates, strategic plans to be valid for: 1-3 years – are developed by up 80% of Ukrainian holdings, 3-5 years - 40% of the holdings, 5-10 years - 20% of the holdings, the more distant future - only 3% of the holdings.

Herewith those strategies undergo dramatic changes (up to adoption the opposite strategy, for example, austerity spending to market expansion and total modernisation) with the frequency as follows: during each month (!) - 10% of companies, 3-6 months of each year - 45 % of companies during the year - 35% of the holdings, from 1 to 3 years - 10% of the holdings.

This suggests a low level of the strategic analytical apparatus, high conjecture-like incorporated in the strategies operational actions, the lack of a systematic approach to the development strategy. To move on to the next level of maturity of it is necessary for the holdings to develop technologies of the strategic analysis, improve the strategy of the holding to a clear plan of action for all strategic business units. At this level of maturity in SSA at present, according to the survey conducted, there is, 18-20% of the domestic holdings.

At the third level there is no mechanism to implement strategy. Holding companies which have developed a qualitative plan of actions and programs to achieve the strategic objectives meet common problems of transforming plans into real business. For successful implementation of the strategy there required the construction of a mechanism for its implementation and development, creation of the organisational support for the successful implementation of the strategy, taking steps for involving into the process of the strategies implementation all key stakeholders of the holding, conducting training and consulting and information activities on the implementation of the strategy, creating appropriate motivation system and the management system of the strategic change. At this stage, there are about 10% of Ukrainian holdings.

The next, the fourth level of maturity in SSA is characterised by a well functioning system design and implementation of the portfolio of the strategies of the holding. The strategies are effectively designed, and effectively

implemented. This means that strategies development is based on a thorough and objective strategic analysis, strategic stakeholders' target goals have been considered, criteria for evaluating the success of strategies at all levels for all participants of the holding structure have been specified, an effective action plan that takes into account the role and function of the strategic drivers of strategic receivers has been developed.

The Project Management Maturity Model (PM3) by Harold Kerzner (2005) consists of five levels, each of which shows a different degree of maturity (development) of project management practices in the company. At the first level - "Terminology" - the organisation is aware of the importance of the project management and the need for acquisition of basic knowledge and appropriate terminology of the project management. At the second level - "Common processes" - the organisation realises the importance of identifying and developing common processes so that one project succeed could be repeated in the performance of others. At the third level - "Unified Methodology" - the organisation understands the importance of synergistic effect, which occurs when the integrating with other project management methodologies (quality management processes, etc.). At the fourth level - "Benchmarking" - it comprehends the need to improve the corporate processes if the corporation expects to maintain its leadership among competitors. At the fifth level - "continuous improvement" - the organisation evaluates the information obtained in the course of benchmarking, and has to decide to develop the unified methodology.

When applying PM3, some levels of maturity can and should be achieved simultaneously. For example, in a company there may be developed the templates and procedures for the project management, and training skills in project management is ongoing. Or the company creates the project management centre (project office) even throughout the course of the adaptation and improvement of the methodology. During the "maturation" of the organization, requirements for activation of benchmarking and innovation velocity increases. Levels 2 and 3 often achieved consistently. Interrelation between levels 5, 4 and 3 shows that these three levels create a continuous cycle of improvement and can be implemented simultaneously.

An analysis of strategic management of the holding companies determined that the financial results of the strategic decisions of the holdings depend on the agreement of value orientations and priorities of the main drivers of strategic changes to the standards, principles and procedures of project management. The analysis of the data by identifying the pair Pearson correlation coefficient (K_{ij}) defined relationship between the degree of maturity of the organisation in terms of project management, stage of maturity of the strategic management system and the size of the operating profit of the company, which is presented in Table 3.

Table 3: Dependence of the operating profit of the company on the level of maturity of strategic systems and project management

Stages of Strategic Management	Project management maturity levels of				
	1. One project support	2. Several projects support within the program	3. Projects support of business unit of the holding	4. Support all the project of the holding	5. Support of the strategic portfolio of the projects of the holding
I. Lack of a perceived need for the strategic management holding	$0,7 < K_{ij} \leq 0,9$	$0,2 < K_{ij} \leq 0,3$	$0 < K_{ij} < 0,1$	$0,1 \leq K_{ij}$	$0,1 \leq K_{ij} < 0,3$
II. Lack of a strategy as a set of formal goals and action plans	$K_{ij} \leq 0,5$	$0,7 < K_{ij} \leq 0,8$	$0,7 \leq K_{ij} \leq 0,9$	$0,3 \leq K_{ij} \leq 0,7$	$0,4 < K_{ij} < 0,6$
III. Absence of a mechanism of the strategy realisation	$0,5 < K_{ij} \leq 0,7$	$K_{ij} \leq 0,5$	$0,5 \leq K_{ij} \leq 0,6$	$0,7 \leq K_{ij} \leq 0,9$	$0,7 \leq K_{ij} \leq 0,8$
IV. Effectively functioning system of the strategic management	$0,3 < K_{ij} \leq 0,5$	$0,5 < K_{ij} \leq 0,6$	$0,4 \leq K_{ij} \leq 0,7$	$0,5 \leq K_{ij} \leq 0,7$	$0,8 \leq K_{ij} \leq 0,9$
	Strongly expressed relationship ($K_{ij} > 0,7$)				
	Significant relationship ($0,3 \leq K_{ij} \leq 0,7$)				
	Weak relationship ($K_{ij} < 0,3$)				

These studies have shown that as the next stage of maturity of the project and strategic management of holding company occurs, the profit level increases, which proves their interdependence of the former and the latter in terms of the contribution of both to the effectiveness of the holding companies within the industry.

Conclusions

Determination of the specifics of the ordinary Ukrainian holdings allowed us to identify several blocks of existing problems of strategic management in Ukrainian holdings which require a comprehensive study. In this paper we have considered the questions of coordination of target goals and the level of contribution of the strategic

stakeholder ("net" owners, owners who perform management functions, and "net" (hired) managers) to the processes of making and implementing the strategic decisions. Also, it has been determined at what stage of the strategic management are the modern Ukrainian holdings; specified the maturity levels of the project management. It was determined that as the next stage of maturity of the project and strategic management of holding company occurs, the profit level increases, which proves their interdependence of the former and the latter in terms of the contribution of both to the effectiveness of the holding companies within the industry. In turn, this necessitates the use of project-based approach to the strategic management of the holding companies in order to increase the effectiveness of their activities.

The areas requiring further study are the questions of analysis of balanced strategic portfolio of the holding structure, optimisation of the organisational support for the strategic management of the holding company using the design approach and evaluation of the strategic holding portfolio.

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