

# Strategic Decision Making in the Corporation and Its Infrastructure Provision: A System Model

Denis Vladimirovich Tsovma, Svetlana Valentinovna Iudina

**Abstract:** Decision making in multicorporate enterprise related to the accession (liquidation) of new business units is very specific solutions that simultaneously combine the features of other strategic and investment decisions. In the article, the authors propose to enrich the standard structural model of such decision making with the functional aspect and concepts of statics, dynamics, and system development, as well as consider special management functions consisting of corporate management, assessment of operating activities, current financial analysis, project management, overall assessment of the business, and the consolidation of all measurements. In the authors' opinion, this will give applied and methodical meanings to proposed methodology, on the one hand, and cyclicity and completeness, on the other hand.

**Index Terms:** corporate management, managerial functions, multicorporate enterprise, strategic decision making.

## I. INTRODUCTION

Most multicorporate enterprises are effective in case they find a balance between the effectiveness of decisions made at the level of the corporate center and the permissible autonomy of business units. In other words, an effective multicorporate enterprise is a formation, in which it is possible to correctly build a system of strategic decision making, transferring the necessary and sufficient (optimal) part of strategic decisions from the upper levels of management to the lower level. The high costs of creating and maintaining a corporate "superstructure" and the risks of ineffective decisions at the level of subsidiaries and associated companies are exactly these Scylla and Charybdis between which one has to pass when building the correct system of strategic decision making in the multicorporate enterprise.

Before considering the strategic decision-making system in the multicorporate enterprise, one circumstance should be noted. Long-term observations of the professional activities of practicing economists allow making broader assumption than that of the present study: today, in Russian companies, the focus of economic knowledge is narrowed almost to the scope of accounting that constricts the economic decision down to optimization of taxation or plugging holes to increase investment attractiveness. This situation can be described as ANTI-strategic because it does not imply a

prognostic vision for more than one financial year. A number of authors [1] see way out of this situation in the implementation of strategic management accounting to address the shortcomings inherent in accounting. A distinctive feature of strategic management accounting consists in consideration of the external environment factors, as well as a combination of accounting and management approaches within one information system. One way or another, the theses of the need for a strategic management decisions' system today are quite common.

## II. THEORETICAL GROUNDS OF THE STUDY

Strategic planning, organizational development, merger and acquisition management are often included by the experts in the core functionality of the corporate center [2]. The merger and acquisition process is a complex reorganization of businesses (both the object and subject of the acquisition), which affects the development of both the participating companies and the entire industries and regions. Increasing the company size by joining new business units has undeniable advantages, similar to those which rationally explain the reason for the existence of the multicorporate enterprise, i.e. obtaining a synergetic effect (economies of scale), increasing competitiveness and profitability. At that, bearing in mind the risks and possible negative consequences of mergers and acquisitions is equally important. Some authors [3] note that perhaps the most important risk may be associated with the lack of a development strategy. In other words, it is referred to the situation, where one has acquired a company guided by the technical analysis, internal political considerations, etc., and has no idea what to do with this company.

Decision making on mergers and acquisitions is as diverse as today's corporate relationships. These can be completely rational and economically sound relationships and solutions, as well as politically and socially oriented relationships, ensuring the implementation of a certain social contract between the state and big business. There are solutions and short-term relationships that support them, designed exclusively to ensure larger bargains designed for the long term. But, one way or another, these decisions should not contradict the overall development strategy of the multicorporate enterprise and meet the interests, first of all, of its holders.

Having regard to the above, it is possible to form a theoretical and methodological basis of strategic decision making in the multicorporate enterprise (Table I).

**Manuscript published on 30 June 2019.**

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**Table I.** Theoretical and methodological basis of strategic decision making in the multicorporate enterprise

Conception (approach)	Subject matter	An aspect of the conception (approach) included in the strategic decision-making model in the multicorporate enterprise
1	2	3
Decision-making theory	Decision making is a management function and an action selection process that can be structured.	– availability of at least one alternative; – the consistent and structured selection process
Strategic management theory	Management (managerial decision) is based on the prediction of the future situation (primarily external) and the choice of adequate behavior taking into account own goals.	– predicting the future state of the external environment, industry sector, a business center, and business periphery
Investment theory (approaches to the assessment of investment decisions)	Investment decisions are made based on the cash flow forecast generated by investments, taking into account a variety of macro and microeconomic factors.	– using the concept of changing a monetary unit value over time; – using the concept of cash flow as the difference between inflows and outflows

Conception (approach)	Subject matter	An aspect of the conception (approach) included in the strategic decision-making model in the multicorporate enterprise
1	2	3
Merger and acquisition concept (synergy concept)	Decisions to increase the size of the enterprise through the acquisition of assets are made based on an assessment of the synergy effect.	– cost increase due to increased management scale needs to be offset by the synergistic effect caused by the accession of new business units

Source: compiled by the authors.

Consequently, decisions in multicorporate enterprise, related to the accession (liquidation) of new business units, are very specific ones combining the features of other strategic and investment decisions.

**III. STRATEGIC DECISION MAKING**

Table II indicates the actions' sequence when making decisions on mergers and acquisitions at multicorporate enterprise.

**Table II.** Merger and acquisition decision making in multicorporate enterprise

The emergence of the conditionally uncommitted resources, requiring decision making on investments		Emergence (manifestation, exacerbation) of the problem of individual business units' inefficiency	
Acquisition (creation, absorption)	Sale (liquidation)	Changes for improvement (reforming, restructuring)	
1	2	3	
1. Analysis of the external environment in a broad sense to diagnose accurately the current status of the business			
2. Asset market supply analysis		2. Asset market demand analysis	
3. Assessment of industry and market development prospects (independent of the enterprise)		3. Analysis of the internal environment of a business unit and its immediate environment	
4. Assessment of possible synergetic effect (economies of scale, technological chain optimality, influence in the region, etc.)		4. Comparison of benefits and risks associated with changes	
↓	↓	↓	↓
Not available	Available	Risks outweigh	Benefits outweigh



RENEGING ON A DEAL	MAKING A DEAL	MAKING A DEAL	TIMING OF CHANGES
5. Market monitoring	5. Determining the optimal model (scheme) of the deal		5. Implementation of changes
	6. Making a deal		6. Control
	7. Assessment of the performed actions' efficiency (deals, changes)		

Source: compiled by the authors

Thus, a universal mechanism of making such decisions is reduced to accurate diagnostics of the situation, generation (inventory) of alternatives, their assessment, and making the final choice. However, strategic decisions regarding the presence of noncore business units in the multicorporate enterprise are specific, firstly, in terms of their inclusion/exclusion from the multicorporate enterprise; and secondly, in terms of the expediency of changes in the business unit strategy in respect of which the decision is made. The need for decisions regarding the acquisition occurs in case of availability of conditionally uncommitted resources requiring investment. That is, these decisions are part of the corporate investment policy if the company is actively engaged in portfolio investments (except for the situation where the company cannot continue developing without this acquisition). One way or another, the multicorporate enterprise should be on the rise. The most critical phase in such decision making is the assessment of the possible synergetic effect, which underlies the decision making on the deal. The need for decisions to exclude or adjust the strategy of business unit arises in a situation of more or less significant crisis, i.e. these solutions arise either in the situation of finding ways to improve the efficiency of the multicorporate enterprise performance or in the current or operational corporate management. The most critical phase in such decision making is assessing the benefits of the sales deal or comparing the benefits and risks associated with the changes.

#### IV. MODELING OF THE STRATEGIC DECISION-MAKING SYSTEM

It is proposed to supplement the theories and concepts given in Table I, which can be used as a basis when building a generalized strategic decision-making model in the multicorporate enterprise, with the system-based approach.

System management in it's up to date form, having originated in the depths of cybernetics, having transformed through a tektology of A. Bogdanov [4], and later – through the synergy of I. Ansoff [5], is a universal management method based on the perception of the management object as a certain whole, consisting of interrelated parts, and being simultaneously a part of a system of a higher order. A

multicorporate enterprise as a certain whole can be trivially represented as a set of businesses and legal entities that are part of and related to each other by ownership of capital. In this case, majority stakeholders, the Board of Directors, the state, as well as the macro environment in a broad sense can be considered as a supersystem. It is proposed to enrich this standard structural scheme with functional aspect and concepts of statics, dynamics, and system development. In our opinion, this enrichment will allow giving system applied and methodical meanings, on the one hand, as well as cyclicity and completeness – on the other hand.

The functional part of the model involves the following.

1. Corporate management, as a complicated system of relationships between company owners and corporate executive management, aimed at ensuring transparency of decisions made and corporate actions, provides an institutional basis for decisions. While accepting the presence of two corporate management models (Anglo-American and Continental-European/ German) as an unconditional statement, on a formal level, corporate management in Russian companies tends to the second model, although with serious reservations. One way or another, the corporate management system relies on well-developed mechanisms, such as formalizing relations through regulatory documents and formal procedures; representing all shareholder groups in the Board of Directors; reporting relationships of management to the Board of Directors, as well as ensuring accountability of the Board of Directors to the stockholders' meeting; involving independent directors; establishing committees that control the adoption of specific decisions; publishing information on the company's activities and financial performance, etc. It is believed that corporate management insures against abuse, affiliation, and opportunism of management, though makes the company less flexible and increases its costs. At the same time, guarantees of management integrity still have positive impact on the capitalization dynamics (Table III). Given Tables demonstrate the fact that companies in the first tier of corporate management, as a rule, demonstrate a stable upward trend of capitalization level.

**Table III.** Relationship between the corporate management quality and corporate capitalization level

Company	2015	2016	2017	Stated dependence

	Arsagera Asset Management Company [6]	Cost, bln rubles	Arsagera Asset Management Company [6]	Cost, bln rubles	Arsagera Asset Management Company [6]	Cost, bln rubles	of the corporate management quality and corporate capitalization dynamics
1	2	3	4	5	6	7	8
Rosneft	133	2,684	121	4,269	115	3,089	moderate
Gazpromneft	109	678	79	1,015	79	1,157	high
Surgutneftegaz	-7	1,554	-7	1,353	-1	1,213	high
Lukoil	113	1,995	107	2,934	101	2,836	high
Tatneft	111	721	81	965	69	1,097	high
Norilsk Nickel*	139	1,448	140	26	140	30 (1,804; 1 <sup>st</sup> quarter of 2018)	moderate
Autovaz	4	46	2	48	42	52	week
GAZ	37	8	14	10	14	15	week
MTS	147	436	138	514	145	552	high
Rostelecom	76	248	19	229	41	176	high
Mostotrest	113	22	112	26	74	42	high
LSR Group	140	69	134	98	100	85	moderate
PIK Group	136	145	136	192	77	216	high

\*The decline in the capitalization of PJSC MMC Norilsk Nickel is due to nonmarket factors, therefore it cannot be considered fully representative.

2. The operational activities of legal entities belonging to the multicorporate enterprise ensure the creation of added value necessary for consumer markets. The efficiency of operating activities is determined, firstly, by the “accurate hit” to the needs of the target consumer segments, and secondly, by the correct distribution of economic resources along the entire length of the technological chain. This efficiency is expressed by the profit indicator from sales, or similar indicators. Operating activities that are not relevant to the core business in multicorporate enterprise business units are not necessarily built explicitly into the overall technology chain. For example, activities, such as logistics, equipment maintenance and repair, construction and repair, operation and repair of energy networks are directly or indirectly built into the process chain as auxiliary or serving functions. Activities, such as information support, production of advertising messages, an organization of corporate catering, unique design and survey works, and nonperiodic training of personnel belong to activities that are integrated into the overall chain of the multicorporate enterprise with the production business only through the mediation of the above-mentioned auxiliary or serving functions. In this case, synergy can manifest itself only in the long term.

3. The current financial analysis of business units of the multicorporate enterprise serves as a calculation and analytical tool used to draw a conclusion on the current financial status (on a certain given date) of the object and, accordingly, on investment opportunities and bankruptcy risks. Based on the current financial analysis, decisions are made on the available reserves for the business unit development, data are prepared for the consolidation of financial statements, a conclusion is made on the prospects of supporting the company through investments in capital and property on the part of the founder, etc. To date, this function

is the most developed methodically, although even here there are reserves for improvement, in particular, in terms of accounting for the role of the founder in the artificial improvement of financial (accounting) statements.

4. Project management as an instrumental approach ensures in this case coordination of efforts and resources of the involved companies in achieving a specific goal (implementation of a specific idea) within the established time frame and within the overall budget. Naturally, in this case, it is referred to complex integrated projects, in which standard project roles are performed by representatives of different organizations. In the proposed model, the project management supports the dynamics of the management system, because the linear and functional structures involved in the multicorporate enterprise are focused primarily on ensuring their current activities.

5. The cost of business (company), as an important criterion of the correctness of made strategic decisions, is also one of the most controversial aspects of the studied management. Valuation of a particular business unit in a multicorporate enterprise is difficult due to the fact that the periphery of the multicorporate enterprise consists, as a rule, of nonpublic companies that entails the impossibility of a more or less objective assessment by the market. As a rule, noncore companies in the multicorporate enterprise have specifics that do not allow estimating its cost by comparison with the analogs offered for sale. This is possible in a narrow field of activity or in a narrow consumer segment (offsite corporate banquets, advertising on one or two TV channels, a small printing house, diagnostics of special equipment, etc.).





When assessing, it is difficult to rely on the official financial statements, because the company may not be independent in accounting policy, or receive one-time financial injections from a rich founder, so as not to demonstrate a loss. Assessment based solely on the market value of the enterprise's property that can be sold at liquidation, or on goodwill, which includes the client base or inventions and technologies, can be justified only in particular cases. Therefore, for a particular multicorporate enterprise, it is necessary to have own assessment methodology of the total cost, "tuned" to its unique composition, structure, sectoral diversity, and organizational and legal support of the activities of constituent legal entities.

6. Consolidation of measurements and determination of the role of the business unit in changing the reputation, capitalization, and income of shareholders can be considered as the final management function that ensures its cyclicity. Traditionally, the consolidated financial data reporting, the consolidation perimeter, and methods are the subject of

discussion and debate [7]. Attempts to integrate financial data reporting into a more general system of corporate indicators, especially taking into account the consolidation of all indicators, different in nature and often disparate in absolute terms, most often ended with the creation of scoring systems, to which many questions remain. It is, therefore, necessary to continue searching the ways of consolidation of such measurements and highlighting the weight of a particular business unit in consolidation results.

We believe that this method can be found in the field of information technology.

The management cycle is ensured through the following activities:

1. Goal setting (statics);
2. Process management (dynamics);
3. Development (long-term and sustainable positive dynamics).

The model structure can be represented graphically as follows (Fig. 1).

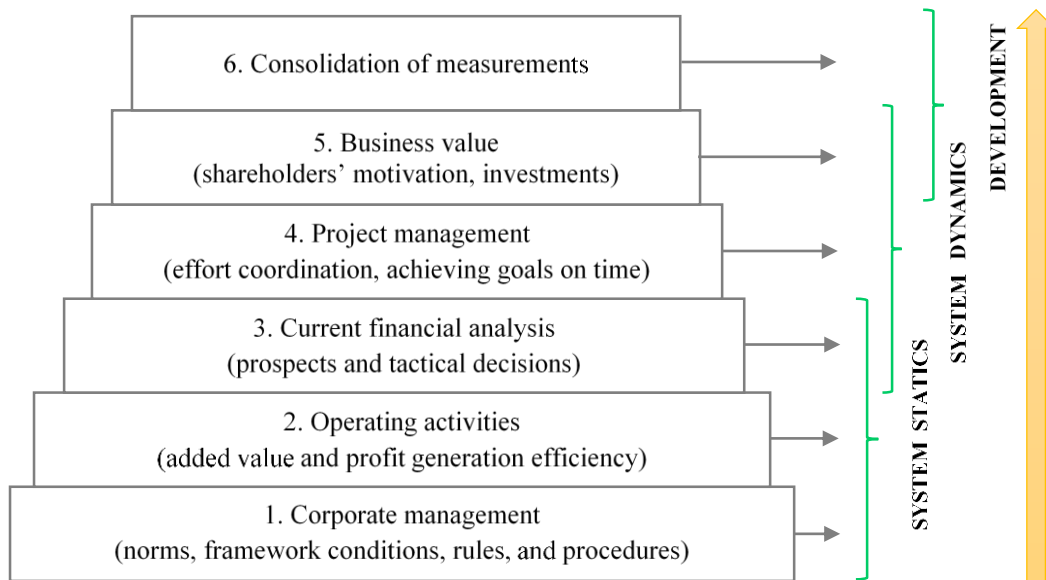


Fig. 1. Graphical representation of the model of the strategic decision-making system in the multicorporate enterprise

## V. CONCLUSION

Thus, when conducting applied research, one can use the proposed model of strategic decision-making system, since it allows integrating several important management functions, and enables setting clear criteria for the effectiveness of future decisions, taking into account the data on the static and dynamic state of the managed object, as well as allows predicting the development of multicorporate enterprise, aimed at long-term sustainable growth of its aggregate value and business reputation.

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