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IMPORT SUBSTITUTION AS A MEANS OF IMAGE FORMING: PROSPECTS FORECAST OF INDUSTRIAL ENTERPRISES IN UKRAINE

ABSTRACT. The article presents the results of a study of current trends operation of industrial enterprises in Ukraine. There are high degree of dependence on foreign trade situation, the low level of production equipment and the demand for domestic products. It proves the relevance of the strategy of import substitution. The authors present this strategy as an opportunity to enhance the image of Ukrainian industrial machine-building enterprises in international markets over the coming decade.

Keywords: industrial enterprise, tendency, trendwatching, import substitution strategy, enterprise image.

Introduction

It is widely thought that the main direction of enterprise development is its general development strategy which is connected with basic activities and is focused on execution of the main purpose. Strategy is a forward-looking orientation point of the enterprise existence and development. The effective policy of industrial enterprise should be based on current facts and maintaining the strategic directions of operation.

Since October 2013 the political situation of Ukraine has been significantly influenced on economic relations both inside of the country and on international scene. This is reflected on the activities of engineering enterprises Ukraine. Critical state of economy that appears in complicated of co-working of the Ukrainian industrial enterprises with suppliers, agents,

partners and even consumers from Russia, dictates urgent necessity of redirecting of strategic direction of development. The prediction of alternative development options is one of the important stages of the strategy selection of industrial enterprise.

In a global economy, where goods and services are traded worldwide, a few large producers from a few developed countries possess a large portion of market supplies. Despite the efficiency caused by economies of scale, the excessive interdependence reflects on volatile economy. The current economic crisis reveals that the economic dynamics of developed countries greatly affect developing countries, which suffer more from an economic crisis than developed countries. Countries that require loans from International Monetary Fund (IMF) are underdeveloped nations including the Ukraine, Hungary, and Pakistan (Krasnolutska, Martens, 2008). The interdependency increases risks in the world economy and the high risks cause economic volatility. The power imbalance between large and small regions needs to be mitigated to cope with the volatile economy.

According to economists (Blair, Carroll, 2008), the country's income is determined by its trade balance. On this basis, it was decided to allocate two models of national economic development. The first involves a preferential orientation to foreign markets – export-oriented model. The second one is focused on import substitution. Thus, in the first case, the development is ensured by the inflow of funds which are subsequently sent to the development of the local economy – new jobs creation. In turn, due to income growth increases the capacity of the domestic market.

Policy of import substitution involves the development of the economy mainly through internal resources. In addition, the production of goods for the domestic market is difficult to get the savings due to the volume of production. Therefore, maintaining of local producer competitiveness of is often introduced measures to restrict competition from imported products, in particular through the introduction of additional taxes on imported goods and artificial overestimate of the national currency. Therefore, the strategy of import substitution is a transition stage to export oriented model.

Successful experience of production modernization can be traced to such countries as Japan, Spain, Taiwan, South Korea, China and Singapore. And it can be considered less successful experience of catching up development in Latin America (Long, 2010, Bértola, Ocampo, 2012).

The implementation phase of import substitution policies refers to 1950 data. During this period there has been a rapid development of heavy industry (chemical industry, machinery, metallurgy, metal). During the import-substitution industrialization in Latin America as a whole showed strong growth in industrial production. For two decades, since 1955 it has increased on average by 6.9% per year (compared to the U.S. growth has averaged only 2.8%, while in Western Europe – 4.8%). Record high growth in industrial production was in Brazil, where the volume of industrial production from 1950 to 1978 grew at an average 8.5% per year (Hirschman, 1968, Fajnzylber, 1983, Colistete, 2010, Bértola, Ocampo, 2012).

The vast number of innovative marketing strategies started and implemented by leading scientists such as: (Kerin, 2007, Ranchhod, 2007, Czepiel John, 1992, Hooley, 2008). The issue of import substitution in the Ukrainian economy is considered in the works of such scientists (Jakubovskii, 2011, Fedulova, 2009). Prospects of import substitution covered in the papers such scientists (Mazaraki, 2012, Melnik, 2012, Enei, 2013) considers import substitution, as a predecessor for innovation economy development. But there are not sufficiently discussed the process of formation import substitution strategies and the development the mechanism of its implementation. As it is a prospective direction of improvement the company's image on the international arena.

This paper discusses the prospects for the development of industrial enterprises in Ukraine. Ukrainian enterprises are proposed implementation strategy of import substitution based on international experience and the analysis of existing business problems. The article is based on dualism. It is necessary to provide strong position products in the domestic market of Ukraine for achieving a positive image of enterprises in machine-building industry. This can be achieved by implementing of import substitution strategy in the workplace.

1. Prospects forecast of industrial enterprise activity

1.1. Essence of prospective approach to forecasting of enterprise activity

The task of realization of effective anti-crisis administrative policy appears for the industrial enterprises due to modern political and economic situation in Ukraine from the second half 2013 till first half 2014 changes. It's a executing the future development forecast from the last news, tendencies and trends that influence on activity.

An important condition of any forecast certainty is the analysis of essential trends and tendencies of social-economical development that characterize quantitative and qualitative changes of economic factors, the most fully and all-encompassing describe the progress of modern society, economical potential, social achievements etc. (Balatskii, Telizhenko, 2008).

Tendency in view of prospect forecasting of the industrial enterprises is a regular qualitative change of process in a certain time range. It describes a possibility of process development in the given direction in a certain time period in future. A new principle of forecasting of development prospects of the industrial enterprises is redirection to modern and future tendencies of development. This principle is shown schematically on Fig. 1.

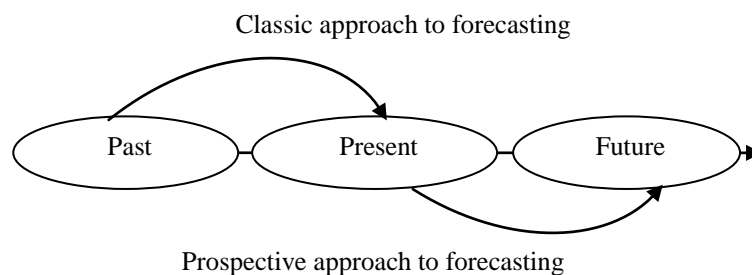


Figure 1. Realization the principle of direction on modern and future tendencies of development in prospective approach to forecasting

Practical realization of forecasting principle in the enterprise activity which is based on the current information is placed in content of such direction as trendwatching (Illiashenko, Rosohata, 2011).

Trendwatching as an element of mechanism of forecasting of the industrial enterprise development directions (eng. “trend” – tendency, “watching” – supervision), means an activity in innovative tendencies learning of functioning of the industrial enterprise and its environment.

Plans about future include not only forecasting, but also technologies evaluation, market researches that is an effort to determine long-term trends and tendencies and coordinate decisions on their basis (Fedulova, 2008). Innovative tendencies realize significant influence on selection and formation of development vector of the industrial enterprise.

Herewith trendwatching is directed on a search, ranging, evaluation and classification of tendencies that display the basic features of activity development of the industrial

enterprise in future. The notion of trendwatching is usually used concerning future forecasting on the enterprise administration level. Besides trendwatching other notions exist that describe the newest directions of social-economical phenomena learning, such as foresight, trendhunting and trendsetting. The place of trendwatching among other modern directions in learning of tendencies is shown on *Fig. 2*.

Level of management	Name of direction	Object	Subject	Level of implementation
Global	Foresight	State and international relationship	Socio-economic processes and phenomena that form the future trend of events	Level of state management and international relationship
Strategic	Trendwatching	Enterprise, its direction of activity		Level of enterprise management, its functional areas
Tactic	Trendhunting	Brands, goods (service)		Level of brands, goods (service) management
Operative	Trendsetting	Promotion of brands, goods (service)		Level of cooperation management with customers

Figure 2. Hierarchy of directions of determination of future events development tendencies

The latest trends trending today for forecasting the development of the future reveal prospects for further development of industrial enterprises in Ukraine based on the study of contemporary social and economic processes and phenomena (Kvasha, 2010).

Prospective direction of the industrial enterprise development is a direction of industrial enterprises development, aimed at ensuring the mission of the enterprise through the implementation of current and future development opportunities to maximize profits in the future.

1.2. Factors of influence and tendencies of determination of prospective development directions

The object of investigation is the industrial enterprise of machine-building industry. Tendencies of socio-economical processes and events should be directed both on external and internal factors of influence (Lapovskyi, 2012, Tiutiunnik, 2012, Sydorчук, 2013).

Internal: industrial development, technical-technological opportunities, peculiarities of functioning, enterprise potential, readiness the enterprise to change the vector of development, to adjustment to modern market conditions, image of producer of certain product types.

External: inter-branch relations, consumer's preferences, level of development of cooperation between market contractors, market conditions in the whole, condition of export and import of industrial products, raw materials, materials, and constituent parts (*Fig. 3*).

Economy of Ukraine needs deep reforms in industry, which will enable to raise economic stability of the country and lessen its dependence on import. The most real prospects of domestic economy are to a great extent connected with development of domestic market which can be realized at the account of strengthening of orientation of domestic enterprises at satisfying needs of its own consumer and development of production of import substitution products.

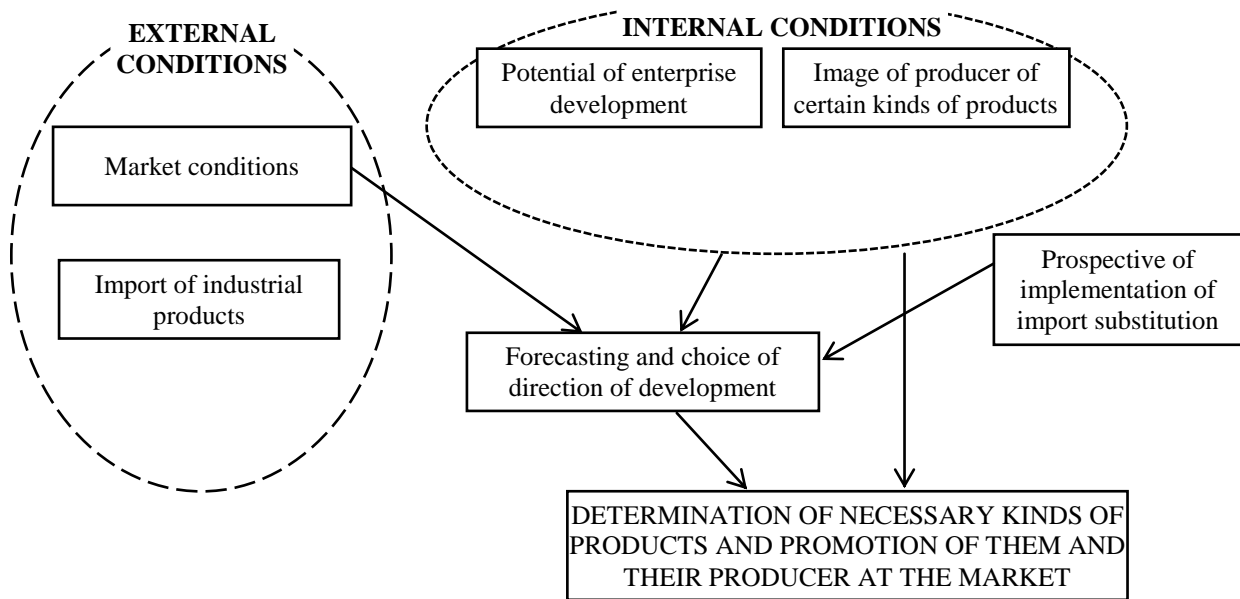


Figure 3. Scheme of mutual agreement of factors of effect on determination of directions of prospective development of enterprise

Source: Illiashenko, S. N. (2006), *Marketing and management of innovative development*.

Prospect of enterprise development is the penetration to international sales markets. But for achieving this purpose Ukrainian enterprises should consolidate their positions at domestic market, raise credit of trust of consumers to domestic producer, create image of the enterprise.

From developed countries experience two principal variants of development can be pointed out. The first provides working out, implementation and realization of innovative technologies with one's own efforts. The second is when external developments are involved to the territory of the country, and at their implementation experience is adopted for further improvement and development (Zavgorodniaia, Grygoruk, Oleinik, 2009). This way is quite long, science-intensive, requires financial involvements for general refocusing of industrial-sales process, but is the safest, because machine-building enterprises will less depend on factors of international influence. Essential changes in production, based on using potential of enterprise, should become one of the most important factors of economic effectiveness of functioning business entity.

The causes of the problems in the enterprise engineering complex of Ukraine (Makarenko, 2006, pp. 31-37):

- Intra: insufficient number of investment resources, poor management and training of staff, outdated core business, poor corporate culture and others.
- Industrial: old technical base, reduction in product life cycle machine building, a large amount of surplus assets in the machine building and others.
- National: disadvantages and frequent changes in legislation; general destabilization of the economy, political instability, high rates of taxation.
- International: a lot of competition from foreign companies, increase demand for high-quality products with the development of science and technology, increase the requirements for environmental indicators, instability of input prices.

New approach to determination of criteria of rational import substitution consists in the following steps:

- working out algorithm of making decisions by the enterprise on practicability of organization of import substitution production;
- creating methods of determination of optimal way of penetration of import substituting goods to the market;
- substantiation of influence of implementation of policy of import substitution on raising image of enterprise.

Analysis of scientific publications and research works on this topic shows that no strict methods and principles of rational import substitution were developed in Ukraine and strategic issues of development of import substituting policy.

2. Import substitution as the means of image making of the enterprise

2.1. Potential of enterprise development as a condition of implementation of strategy of import substitution

The main condition of implementation of strategy of import substitution is re-equipment of production for new modernized and technological lines, which will allow to loop completely domestic production for displacement of import existing complete units from the finished product store.

First of all it demands analysis of potential of innovative development, which includes many components. Structure of potential of innovative development, methods of its estimation and the scale of decisions making are reported in (Illiashenko, 2006). Implementation of new strategy and re-equipment of enterprise for production of new kinds of products with one's own efforts is possible only upon condition of sufficiency of three potentials-subsystems of potential of innovative development (Shypulyna, 2012).

Import substitution policy at industrial enterprises can lead to global change of market and its operators.

Strategy of import substitution of industrial enterprise is a system approach, directed at decrease of rate of import materials, raw materials and constituent parts in ready products of the enterprise, which enables possibility of improving control of quality of products, reduce the payback time, provide full charge of one's own industrial facilities, increase enterprise profitability upon condition of detecting risk factors and their assessment.

Inconsistency the influence of environment on determination the development of strategic plans by the enterprise is conditioned by instability where business entities are functioning. Rapid development of scientific-technical developments at European market demands from domestic producer improvement of its products.

There is a necessity of permanent analysis of enterprise development potential for providing of activity efficiency. That is why, offered group of factors for determination of integral indicator of assessment of enterprise's ability to implement strategy of import substitution:

The first group of factors – economic indicators, which include:

- expenses for holding science-research and research-engineering developments;
- expenses for re-equipment of production capacities;
- expenses for personnel development;
- expenses for manufacturing products;
- operative costs;
- expenses for repair;
- expenses for recycling etc.

The second group of factors – qualitative indicators, which include:

- indicators of complying of products quality with market demands in comparison with competitors' products;
- indicators of products safety;
- materials and energy intensity;
- availability of patents, certification of products;
- environmental compatibility of production.

The third group of factors – social indicators:

- providing of working positions;
- compliance with state programs of activation of import substitution of products of domestic producers (Compiled by the authors).

The analysis of these groups of factors determined the integral characteristics of the enterprise development (Compiled by the authors).

$$I_{EDP} = \{EF; QF; SF\}$$

- EF, QF, SF – actual values of factors state of index economic group, qualitative and social.
- EFcr, QFcr, SFcr – critical values of factors state of index economic group, qualitative and social.

Decide whether to perform specific management actions should be based on the analysis and evaluation of the adequacy of the development potential of the company.

Different variant combinations of course of events can be determined on the basis of factor analysis.

Optimal situation is when $EF \geq EF_{cr}$, $QF \geq QF_{cr}$, $SF \geq SF_{cr}$, in this case all conditions for implementation of import substitution strategy are available, as economic, qualitative, social conditions are sufficient. EF_{cr} must meet minimum value, since it is based on the performance costs of retooling production facilities and their operation, QF_{cr} should correspond to the maximum value, because it is responsible for the availability of certificates of quality and safety and product, SF_{cr} should correspond to the maximum value for the effect that creates new jobs and the company receives favorable conditions for due compliance with government programs revitalization of enterprises.

In case, when social factor state is unsatisfactory, then it is necessary to carry out inspection of capacity and economic expediency of improvement of criteria not corresponding to the required value. In case of incapacity the analyzed variant of development potential of enterprise should be excluded from consideration.

If the state of qualitative factor indicates incapacity or inability of the research and development in certain goods able to satisfy consumer needs and compete with import products, then it is necessary to carry out inspection of capacity and economic expediency of research and development financing, involvement of highly qualified specialists, improve product quality control etc. Otherwise, to exclude the variant.

When economic potential state is unsatisfactory, as conversion cost of import-substituting products is higher than conversion cost of the products composed of import constituent parts, it is necessary to check capability to reduce product cost or to ground its advantages. In case of incapacity, the analyzed variant should be excluded from consideration.

By profound analysis these factors can be combined in a different way, in this case it is necessary to carry out inspection of ability to raise values of unsatisfactory indexes.

Combination of factor correspondence to the enterprise needs for application of import substitution strategy determines ability of its implementation. Decision making process is shown on *Fig. 4*.

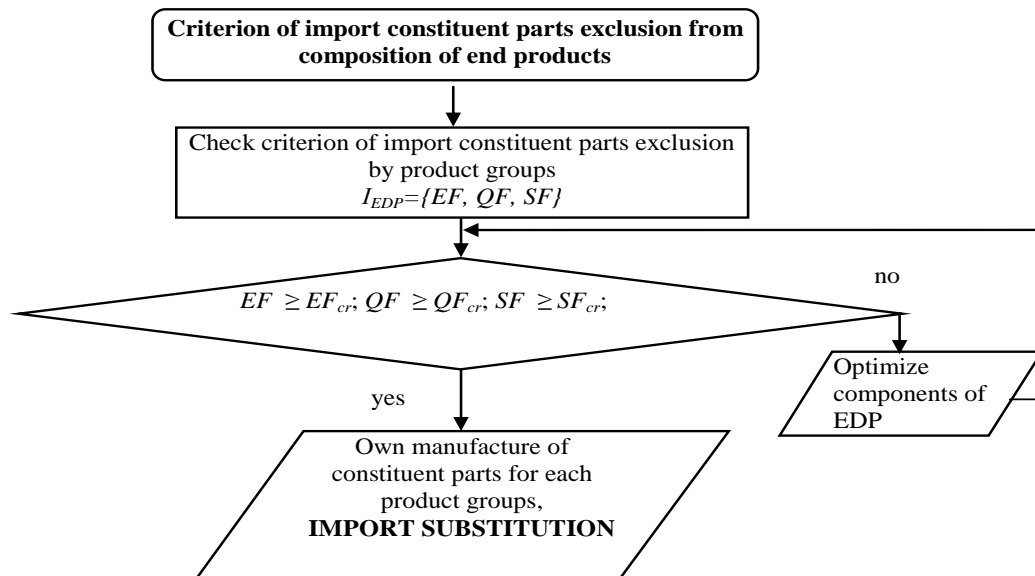


Figure 4. Conditions of displacement of import constituent parts from composition of end products

Source: own complication.

Further it is necessary to carry out estimation of economic effect, determination of risk factors and way of their influence on the results and, actually, implementations.

Implementation of import substitution policy has positive consequences for the enterprise, as follows:

1. Reduction of dependence on import deliveries.
2. Acceleration of funds circulation by means of reduction of production terms of end products.
3. Reduction of prime cost of constituent parts.
4. Reduction of dependence of exchange fluctuations.
5. Operational efficiency of repair service.
6. Possibility of giving spreading to buyers in product payment that will influence positively client base development.

In general, import substitution policy will enable enterprises of industrial complex to cover domestic market, increase technical and technological potential, implement own potential of development and therefore, to gain experience and improve its activity. It will increase consumers' trust to the enterprise and its goods.

2.2. Place of import substitution strategy in model of enterprise image management

By implementation of import substitution strategy at enterprise emphasis is changed to assurance of uninterrupted manufacture and products sale, protection of own markets and countermeasure to external and internal threats, where risks take prominent place. As practice shows a significant element of enterprise competitiveness influencing all aspects of its continuous survival and development is image.

For effectiveness of enterprise image policy with import-substituting strategy there is a necessity of image model formation that would take into consideration peculiarities of enterprise activity. That is why enterprise's image strategy is formed on the basis of import substitution strategy (Fig. 5).

Enterprise's image strategy should be not as a composite of target values but as target identity that should be gained by enterprise. Goal setting should be not only of quantitative but also of qualitative nature.

Measures for strategic management of image of industrial enterprise should be formed according to the situation that arose on the target market in mechanical engineering.

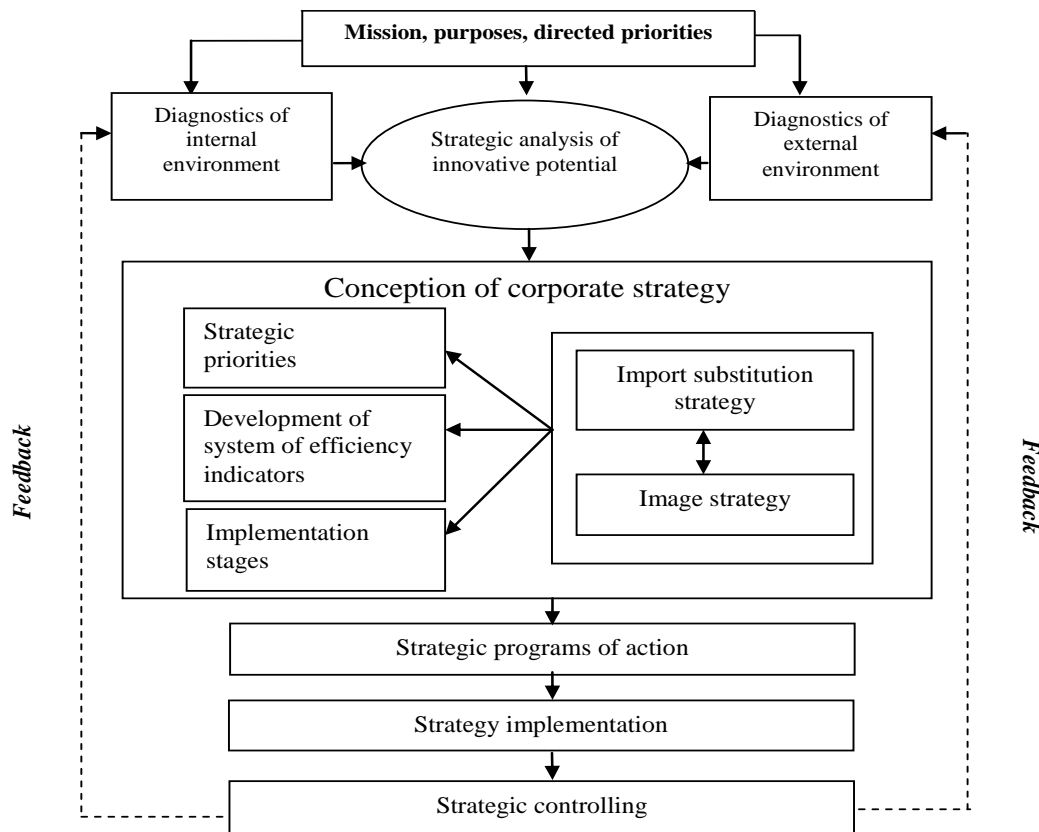


Figure 5. Position of import substitution strategy in model of enterprise image management
Source: own complication.

Implementation of strategic program of actions is described by the following stages:

- determination of strategic purpose in the sphere of industrial enterprise image according to each group of interaction subjects;
- development of a set of alternative image strategies according each group of subject interaction.

Image strategy estimation and choice take place according to the requirements of interaction subjects, enterprise's abilities and risk level.

Control and evaluation of image strategy implementation:

- control of enterprise's image state;
- determination of deviation reasons from the set goals;
- carrying out corrective actions.

In order to assure efficiency of image policy it is necessary to develop means of enterprise's external and internal image management.

Means of internal image management within import substitution strategy:

- determination of operative and perspective goals of implementation of import substitution strategy at enterprise;

- market segmentation according to strategic plans;
- activation of marketing investigations;
- creation of prognostic and innovative investigative structures at enterprise;
- stimulation of innovative activity by means of personnel participation in personnel development trainings, reorientation etc;
- creation of new experimental areas of activity;
- implementation and strengthening enterprise's corporate culture.

Means of external image management:

- use of integrated marketing communications for emphasizing enterprise's stable activity in advertising;
- continuous communication (including feedback) with existing clients and constant search of new;
- advertising of enterprise's technologies and innovative projects;
- application of social advertising that simultaneously can be used for approbation of enterprise's innovative activity;
- active use of trade mark, logotype, slogans of enterprise in all kinds of image activity (Dowling, 2003).

Enterprise's image as many-sided concept combines all components of economic safety. It follows from *Fig. 6* that high level of each component of economic safety influences increase of enterprise's image, on the other hand – positive image contributes to assurance of economic safety by each component separately and enterprise in general.

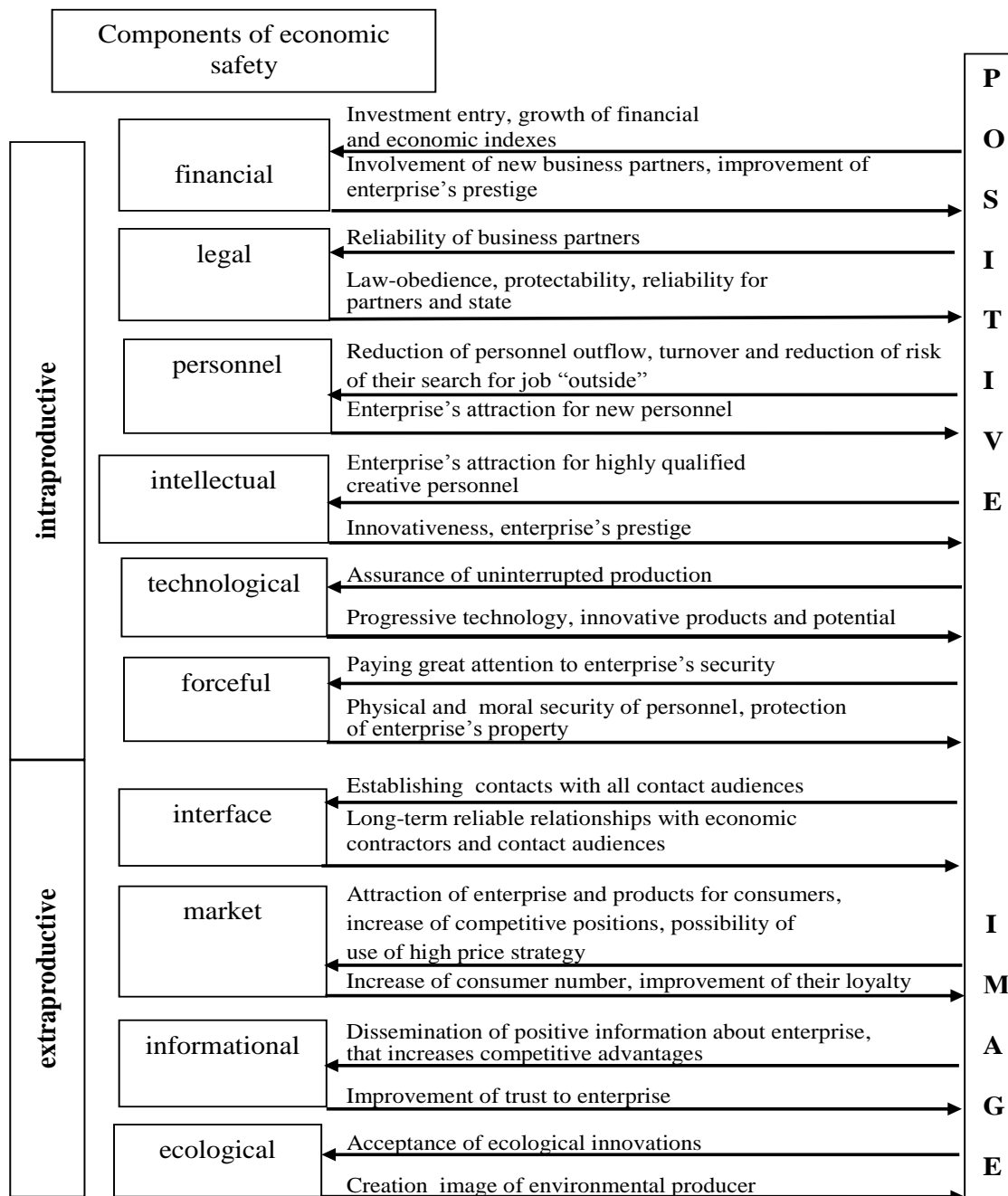


Figure 6. Interconnection of image with components of enterprise's economic safety
Source: own complication.

The very positive image provides creation during a long time in mind of different groups of contractors and contact audiences of generalized integrative characteristics of industrial enterprise which forms competitive advantages and other economic benefits of enterprise in long-term perspective on domestic and foreign markets. Thus, import substitution strategy as a factor enterprise's image favours effective management.

Conclusion

This article deals with the activities of industrial enterprises in machine-building sector of Ukraine. Contains the information about the problems of their operation. Concluded that to overcome the decline and to reduce the dependence on imported industrial enterprises

need to implement innovative strategies for their development. Proposed an import substitution implementation strategy based prediction of enterprises. Analysis the potential of the enterprise is the basis for implementing the strategy of import substitution. Strategy of import substitution is a transitional stage to the implementation export oriented production. Creating a positive image of machine-building enterprises is the key to fixing domestic producers in the internal market of Ukraine. At the time when Ukrainian industrial enterprises in machine-building sector will have a strong position for domestic consumers, then they can orient their activities to actively enter international markets.

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