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## THE KEY FACTORS AND DIRECTIONS OF DOMESTIC INDUSTRIAL ENTERPRISES INTERNATIONAL COMPETITIVENESS INCREASE

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*Заець М.А., Коваленко О.М., Станіславик О.В. Ключові фактори та напрями підвищення міжнародної конкурентоспроможності вітчизняних промислових підприємств.*

Досліджено ключові фактори та напрями підвищення міжнародної конкурентоспроможності вітчизняних промислових підприємств. Сформульовано роль модернізації в цьому процесі.

*Ключові слова:* міжнародна конкурентоспроможність, споживач, вітчизняне промислове підприємство, продукція, послуги, якість, конкурентні можливості, фактори та напрями

*Заець Н.А., Коваленко А.М., Станіславик Е.В. Ключевые факторы и направления повышения международной конкурентоспособности отечественных промышленных предприятий.*

Исследованы ключевые факторы и направления повышения международной конкурентоспособности отечественных промышленных предприятий. Сформулирована роль модернизации в этом процессе.

*Ключевые слова:* международная конкурентоспособность, потребитель, отечественное промышленное предприятие, продукция, услуги, качество, конкурентные возможности, факторы и направления

*Zaets M.A., Kovalenko O.M., Stanislavik E.V. The key factors and directions of increase of international competitiveness of domestic industrial enterprises.*

The key factors and directions of increase of international competitiveness of domestic industrial enterprises are researched. The role of modernization in this process is formulated.

*Keywords:* international competitiveness, consumer, domestic industrial enterprise, products, services, quality, competitive opportunities, factors and directions

The consequences of the economic crisis, inconsistent government policy as to the protection of domestic producers, a high level of moral and physical deterioration of production assets and other factors in whole caused the actuality of domestic enterprises competitiveness increasing problem.

The problem of competitiveness increasing becomes particularly acute for industrial enterprises as the subjects of external economic activity. Because of unsafe management, inadequate business processes, requirements to product quality and other reasons, a large number of domestic industries were not prepared to adequate active behavior on the international market.

Nowadays the industry is regarded as the biggest complex, upon which the competitiveness of goods and services both in the domestic and international markets depends. According to the State Statistics Service of Ukraine data [1], this complex includes 48103 active industrial enterprises. The cost of fixed assets of industry is 1101199 million UAH, while the number of workers in it is more than 3 million people.

The industry is dominated by the third and fourth technological modes. Their share in industrial production is 95%.

The basis of these modes constitute metallurgy, chemistry, light industry, fuel and energy complex, engineering industries. The share of fifth and sixth technological modes does not exceed 5%. The basis of these modes are the electronic industry, computers, fiber-optic technology, software, telecommunications, robotics, information services, bio-technology.

Industrial enterprises are greatly affected by the economic crisis. Because of the reduced external demand the decrease of industrial products exports, reducing in output and increasing of number of finished goods at warehouses, lower financial results, deteriorating financial condition takes place. Although a large number of industrial enterprises obtained significant income, the profitability of operational activity over the last 5 years did not exceed 5%. More than 40% of industrial enterprises in 2012 were unprofitable.

The share of exports of industrial products in GDP is about 40%, but its structure is unsatisfactory

because of the raw material components prevalence that exceeds 60%. Production of high-tech and knowledge-intensive sectors in total amount is only 15%.

It should be noted that the negative trend had started with the decrease of production volumes. In 2012, comparing to the previous year, the production output at light industry reduced by 5,3%, at the manufacturing – by 3,7%, at carving of wood – by 1,8%, at manufactory – by 5,2%, at machine building – by 6%, at the production of other non-metallic mineral products – by 5,8%. In other sectors, although there was a slight increase in production [1], a general decline in industrial production in 2012 comparing to the previous year amounted to 1,8%.

The situation in 2013 is also disappointing: in January-July 2013 compared to the same period of 2012 industrial production index was 94,7%, including chemical products 81,1%, machine building products 86,7%, product processing industry 92,5%, etc. The increase in production during 7 months in 2013 was observed only in the production of wood products, manufacturing of paper, printing – by 3,6% and in the production of basic pharmaceutical products and drugs – 19,7% [1].

All these aspects of the industrial sector of the national economy and active Ukraine's participation in the European integration processes put forward the radical problem of international competitiveness into focus of the state economic policy and industry enterprises' management.

#### **Analysis of recent researches and publications**

The theoretical and practical aspects of competitiveness are reflected in the works of foreign scientists and economists: I. Ansoff, F. Kotler, M. Porter, A. Thompson, R. Fathutdinov and Ukrainian researchers – B. Burkyn'sky, V. Herasymchuk, L. Pidubna, I. Reshetnykova, etc.

The latest scientific researches devoted to enterprises competitiveness problems are exposed by A. Voronkov, G. Zaharchyn, N. Tarnavsky G. Yakovlev [2-5], K. Latysheva, D. Lukyanenko, V. Ponomarenko, I. Sivachenko [6-10].

However, many issues in this area remain unexplored: in particular, modern key factors and directions of domestic industries international competitiveness increasing should be studied.

The purpose of the article is to study the current directions and key factors of domestic industrial enterprises international competitiveness increasing.

#### **The presentation of the main material**

The factors and directions help to achieve the appropriate level of domestic industries international competitiveness.

If the manufacturer contributes to institutional customer profit, it achieves high competitiveness of its products [11].

The profit represents the difference between income and expenditures. In other words, it is the sum of all cash flows that are received as a result of the company's activities, minus the costs of these activities. So the income and at the same time the

competitiveness can be increased either by reducing costs or increasing revenue.

Consumer costs can be reduced through:

- decrease in price of the goods that are consumed;
- reducing of the delivery cost, installation, commissioning and so on;
- the product operating cost reducing. The costs of most types of sophisticated equipment and some simple products do not run out at the time of their purchase;
- reducing the risk of low-quality end product production. Using the high quality components can weaken the danger of low-quality products production and reduce costs for warranty repair etc.

The profitability level costs of the consumer firm are as important as the increase of revenue as a result of using a particular product.

In particular, consumers' income may increase:

- 1) Due to rising prices for its finished products, if used components:
  - provided an opportunity to improve quality. For example, the new tire features improved the qualitative characteristics of the bicycle and created conditions for increasing its price;
  - made it possible to release a brand new product. Thus, the impulse to create a new type airplanes very often provides the appearance and the purchase of better engines, which aircraft building firms usually do not produce;
  - made it possible to develop a product that meets requirements of consumers. For example, the use of new ultra-light batteries allowed to release laptops with built-in electronic communication equipment, making them easier for consumers, particularly for businessmen;
  - increased the products' prestige. This feature, for example, is performed by inscriptions «Intel Inside» on computers. They show that the high quality microprocessors of the USA company «Intel» were used in the production of these machines and thereby raise the credibility of the entire computer.

2) Due to the increase in selling goods (services). Yes, thanks to the appearance of ATMs their customers - banks expanded amount of operations by providing day and night services to its customers.

Nowadays there are some specific problems to determine the main directions of international competitiveness of domestic industries, which were completely unprepared for the competition. It is necessary to conduct the complex of works in the following areas: strengthening the labor discipline, introducing simple activities to improve the product quality and monitoring of financial indicators.

According to a survey of employees of enterprises in different industries, the main reasons for low preservation of discipline are the lack of labor motivation, sometimes late wages combined with spontaneous reduction of staff. The managerial staff of privatized enterprises prefers to expect until unnecessary workers fire, unable to bear low and

irregular wages. The result is deterioration in the quality of staff, because the first workers to fire are the best employees.

In our opinion, it is needed to make the process of dismissal controlled to solve this problem. Those who deserve it can be fired. This policy can be realized only if the ordinary worker understands the perspective of the company and the appropriateness of strict disciplinary actions.

The second problem is neglecting of the products quality by employees. That means not only the problem of improving the quality characteristics of the product in all its fullness and complexity, but also problems about attitude to work.

A simple procedure of comparing the own products with similar ones of competitors brings great benefit in improving the quality. Also, the problem is solved by switching to new, more qualitative components, design changes, more precise compliance of the norms of technologies with almost absent additional cost.

Finally, another common source of domestic industrial enterprises low competitiveness is their relation to the accounting as to something secondary, required only "for the report" than to solve the vital tasks of the company.

Large number of enterprises maintains the old approach to financial management, which is not adapted to market conditions (free prices, different standards of payment, commercial risk, etc). For example, they continue to supply insolvent customers, prices are set at the same level regardless of the form of payment, using of temporarily available funds is not controlled and so on. This causes disorder, great abuses in the finances of enterprises and as a result, extremely high costs.

The improvement of finances starts when the director begins to monitor the rationality of financial flows.

The accounting of many industrial enterprises is not aimed to assist management and it does not give the data about the economic efficiency of certain activities to its leadership. Meanwhile, in proper setting, accounting can answer the most important questions: production of what types of products is unprofitable at the moment, what types are extremely profitable, at which stages of production the enterprise has basic production costs, which purchased resources are particularly expensive and so on.

Having this information, managers can make the right decisions more easily and thus significantly improve the situation of the company.

Furthermore, we should not forget that international market progressive processes like searching new machines and technologies, more perfect products don't stop for a moment. That is why the Ukrainian entrepreneurs must continuously improve the level of their competitive opportunities to keep up with this rapid movement. This can be achieved through obtaining the agreement between the leading international firms about not only purchasing their products, but also about active

cooperation with them on mutually beneficial terms. This is how the modern enterprise's potential is formed and how its competitive opportunities are increased [12].

These opportunities presence, their "horizontal" development and "vertical" quality characteristics create a new level of the enterprise competitiveness, which strategically provides the necessary, real and important preconditions for stable work at international standards [12].

In modern conditions not competition but the cooperation and collaboration represent fundamental sources of profits and economic welfare of society.

An extremely important factor, even a condition for increasing the domestic industrial enterprises international competitiveness is their modernization, which provides some changes in the direction of changing the production structure, the assortment policy, technology, etc.

The basic directions of modernization are:

- modernization of production systems and relations;
- modernization of products manufactured;
- modernization of the production structure;
- modernization of commercial activities;
- modernization of investment and innovation activities.

The purpose of industrial enterprises modernization is to increase their competitiveness [13], including international, for what it is necessary to realize economic, managerial, production, innovation and other purposes.

The leading role in international competitiveness increasing is played by modernization of products, which should take place in two areas: the creation of new products and providing its quality.

The creation of new types of industrial products can be performed by scientific and research organizations and involves engineering, forecasting, calculations and experiments, represents a sequential combination of properties, composition and structure of this product.

Ensuring the required quality of products should be permanent and base on establishing a comprehensive system, which is based on structured and debugged program of actions to ensure the quality of products according to the requirements of foreign consumers and improvement of production efficiency.

The products quality issue is very important, because in order to be competitive in the international market, it is necessary to produce high quality products that meet international standards.

The most important prerequisite for improving the quality of products of industrial enterprises of Ukraine to global standards is the replacement of old standards. Worldwide a number of new standards was developed, including requirements related to product quality. Obviously, their acceptance and work with them will help industrial enterprises in carrying out export operations and enhancing their international competitiveness.

Taking into account the current state of domestic industry manufacturing base, especially its basic industries, and the role of commercial activity in ensuring industrial enterprises effective activity in the international market, the special significance today to enhance their international competitiveness is held by modernization of manufacturing systems and by upgrading the commercial activity.

Manufacturing system of industrial enterprise is a method of production organization in workshops, including the purchasing of raw materials, employees actions, arrangement and equipment service, quality management, development of new products, etc.

Manufacturing system of an enterprise covers all production stages and marketing activities starting from getting raw materials and finishing with sending final products to customers. The quality of products, the value of production cost and eventually the international competitiveness depend on the efficiency of the production system.

The efficiency of production system functioning is determined by how efficiently the company uses the existing labor, capital, raw materials and other resources taking into account the specificity of production and peculiarities of its external environment.

Learning the Japanese experience of production organization allows to identify the main management techniques used in Japan to form efficient production systems. These techniques, many of which are also given English names, are used to upgrade manufacturing systems of enterprises in the West. These methods attractiveness depends not only on opportunities to increase productivity and improve quality, but also on the possibility of applying them under tight budget limits. These techniques use does not require significant capital expenditures even in a traditional capital-intensive industries.

Nowadays the rich opportunities of administrative innovations using the Japanese experience are demonstrated not only by Japanese companies, but also by the leading enterprises in Western countries. In recent years there have been a growing number of enterprises modernizing their production systems using the Japanese experience.

However, modernization of production system itself doesn't mean that such success is guaranteed. Analysis of failed projects of manufacturing modernization systems shows that the main reasons for it are inadequate accounting characteristics of both the market environment in which the company operates and the characteristics of the supplier and financial institutions.

The commercial activities modernization involves upgrading the departments and services engaged in marketing activities, commodity circulation networks, storage systems and financial policy of the company.

Effective commercial activities of an enterprise are impossible without a rational construction of appropriate management structures - departments, bureaus, sectors, etc. Therefore, modernization of their activities should be based on the compliance to the following principles and conditions:

- commitment, what means ensuring compliance with mission, purposes, strategies and policies of the enterprise, focusing on solving purely commercial problems, finding and meeting consumer needs;
  - construction clearness, what means providing the reasonable specialization, absence of functions duplication, ensuring the uniformity of commercial activities management, the controllability of performers;
  - accurate directions of activity determination, what means providing the orientation on the specific concept, the distribution of tasks and functions of each department and performer, vertical and horizontal linkages;
  - the flexibility, that means providing timely response to changes in the business environment;
  - coordination of actions, that means providing the complexity of commercial activities to achieve synergy effect;
  - adequate financial support, regarding both performance of commercial actions and the motivation of employees of certain services;
  - economy, that means providing the covering of costs on the commercial activity by revenue from the sale of certain products;
  - the presence of highly qualified staff and permanent specialized training;
  - constant active policy in the search of markets, customers, unmet needs and creative approaches in solving the commercial tasks.
- The factors that influence the processes of industrial enterprises modernization, should include:
- marketing (market, product, competition, pricing, promotion, marketing service);
  - management (capital management, organizational structure, decision making mechanism, controlling the achieved results, interaction of departments and services, management of supply, sales, inventory operations);
  - organizational (industrial structure, the organization of the production process, serving households);
  - financial and economic (management of working capital, costs, process of capital accumulation, investments);
  - technical and technological (technical and technological level of production, its environmental friendliness, investments in fixed assets, the quality assurance system);
  - informational (document management, computerization of business management, quick responsiveness to the information received);
  - social and psychological (motivation of innovation activity, managers activity, staff employment sources and methods of their selection, employment growth);
  - innovative (innovation, its organization, scientific and technical development, the level of scientific and technical education of staff, scientific and technical services).



Today the main factors which restrain the pace and quality of achieving the industrial enterprises modernization goals are:

- insufficient development of a competitive market environment in the country;
- unstable regulatory environment;
- undeveloped internal stock market;
- limited access to financial resources;
- lack of state support;
- psychological unreadiness of leaders to modernize;
- lack of practical experience;
- deficit of funds to perform modernization;
- low level of development of the internal market consulting services .

Despite all the difficulties, there are some revitalization processes of modernization in the domestic industry, its success will depend on the created programs of state support for modernization, activation of the regional governments, the creation of incentives for its carrying out, the formation of a specific regulatory environment.

To make a conclusion, it should be noted that to achieve and to maintain a high level of competitive advantages, such a direction as state influence on the process of providing a high level of industrial enterprises and its sectors competitiveness is used.

A competitive status of the company is formed by internal and external factors. The company must worry itself about using internal factors. But creating conditions for the occurrence and support of competitive advantages of national industry as a whole are the most important tasks of the state, its legislative and executive authorities.

This task must be resolved through the state program providing competitiveness of the industry. The state main efforts should be directed at finding potentially competitive industries and enterprises, such companies that have more necessary conditions to achieve competitive advantages in short terms under governmental aid auspice in both domestic and international markets.

The state program should be focused on:

- creating favorable conditions for achieving competitive advantages in all determinants of «competitive diamond»;
- searching competitive sectors and companies;
- organizing the process of rational use of state budget funds for gradual transformation of these sectors to the fields with real competitive advantages.

### Conclusions

As a conclusion we should observe that the key factors and ways to increase the international competitiveness of industrial enterprises embody sector-specific list of factors and directions that bring it competitive advantages over other sectors as well as one company of the sector over the others. They vary depending on the characteristics the sector, segments of the international market, the sector's and company's life cycle and are based on scientific and technical level of production and manufacturing, marketing level, the level of management, organizational and technical level of production processes, financial and economic level and the level of staff. Critical role in increasing the industrial enterprises international competitiveness is played by modernization, that suggests that all the necessary changes in all directions of their activities are done, and it is aimed at creating new relationships in management and manufacturing, by using the reformation of control system and innovation ensuring of manufacturing competitive industrial products, the new production formation relations, development of activities in area of marketing and attracting investment funds.

Considering the high importance of management factors in providing effective activity the domestic industrial enterprises in the international market, further work involves a detailed study of their impact on the international competitiveness of industrial enterprises.

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