IMPORT SUBSTITUTION AS A MEANS OF IMAGE FORMING: FORECASTING OF PROSPECTS OF INDUSTRIAL ENTERPRISES

ABSTRACT. A scheme of import substitution strategy forming on the basis of innovative development analysis is proposed in the article that is a factor of the enterprise image increasing. Necessity of the forecasting process in enterprise activity is proved where trendwatching is detected as a main method. The relevance of import substitution as the variant of domestic industrial enterprises development in modern conditions of economic management is shown on the basis of publication analysis and modern trends investigation. Having made the analysis of current economic situation that is characterized by a high level of uncertainty and increasing of effective activity factors, the positive influence of import substitution strategy implementation on economical safety providing was detected, that is in turn interconnected with the enterprise image. The main means of external and internal image administration are pointed in the limits of import substitution strategy. The evaluation of possibility and practicability of import substitution strategy implementation on the industrial enterprise is designed and its positive consequences for the enterprise are stated.

Keywords: industrial enterprise, tendency, trendwatching, prospective direction for development, potential of innovative development, import substitution strategy, enterprise image.

Introduction
Today it is widely thought that the main vector of enterprise development is its general development strategy which is connected with basic activity and is focused on execution of the main purpose. So, strategy is a forward-looking orientation point of the enterprise existence and development. Modern industrial enterprises of Ukraine while realizing their activity, make operative decisions during current questions occurrence that mostly are focused on economical effectiveness increasing and profit markup, practically without focusing on strategic directions. The practice of modern market relation operations in the country shows another approach to the economic business management. In the modern economic area that activity will be effective which is capable for a quick response under pressure of new factors influence – redirecting, diversification, reengineering, modernization etc. within the framework of general strategy and
long-term prospects. Effective industrial policy of the industrial enterprise should be based on today’s facts and forecast the prediction of future development of events and maintaining of strategic vectors of functioning.

For the last half of a year the development of the political situation of Ukraine significantly influenced on economic relations both inside the country and on international scene. Today’s critical state of economy that appears in impossibility 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. It is possible only on the basis of forecasting of prospects of Ukrainian industry development.

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 national economy is considered in the works of such domestic 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 precondition for innovation economy development. But the works 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.

1. Forecasting of prospects of industrial enterprise activity
   1.1 Analysis of forecasting preconditions of prospective development of Ukrainian industrial sector

The traditional approach to forecasting on the industrial enterprises requires the process of making view of future development of events judging from information in retrospection. Mostly the statistic recording is the data source concerning past events. According to official information of the State service of statistics of Ukraine, the industrial enterprises of Ukraine engage in their business activity in normal regime. But herewith the dynamics of sold industrial products volume shows the factor decreasing in 2013 (Table 1). [9]

Table 1. Volume of sold industrial products (goods, services) in 2010-2013, ml. UAH.

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>717076,7</td>
<td>917035,5</td>
<td>806550,6</td>
<td>1065850,5</td>
<td>1331887,6</td>
<td>1400680,2</td>
<td>1111268,8</td>
</tr>
</tbody>
</table>

Source: Compiled from State Statistics Service of Ukraine

As Table 1 shows, previously the Ukrainian industry increased its turnovers every year and in 2012 it had maximal denotation, volume of sold industrial products (goods, services) - 1400680,2 ml. UAH. After that in 2013 some fall of the industrial enterprises work is observed (volume of sold industrial products (goods, services) - 1111268,8 ml. UAH). According to these data we can make a conclusion, that general political and economical situation in the country made specific negative influence on industry in general and on particular industrial enterprises specifically.

If to make more detailed analysis of volume of sold industrial products by months of 2013 and January-February 2014, obviously the last two months have extremely low values of volume of sold industrial products in comparison with analogical factors of 2013 (Fig. 1)
According to the results of Figure 1 we can say, that industrial products in country are sold less and less. However, concerning development, the enterprises can work in the same regime. But herewith administration of every certain enterprise cannot be redirected only from statistic data because they do not display the main peculiarities of today’s situation that formed. That is why it is reasonable to forecast the future development on the basis of current situation with the purpose of development prospects determination of each particular enterprise.

1.2. Essence of prospective approach to forecasting of enterprise activity

Due to the fact, that modern political and economic situation in Ukraine permanently changes, herewith far from positive side, the task of realization of effective anti-crisis administrative politics appears for the industrial enterprises – executing of future development forecast from the last news, tendencies and trends that influence on activity.

An important condition of any forecast certainty, moreover forecast of the industrial enterprise development direction, is its basing on 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 interval in future (Compiled by the authors).

Today the situation appears when tendencies that are important in administrative system of the industrial enterprise cannot be estimated statistically. It happens because of both absence of information in historical sphere and the fact that modern state of economy cannot be investigated quantitively but herewith the range of qualitative unformalized characteristics of the present proves the necessity of the industrial enterprises redirection and conditions the relevance of making the development prospects forecast that is based on present information (Tymoshchuk, 2011). This vector of investigation is placed into a new principle of forecasting of development prospects of the industrial enterprises — redirection to modern and future tendencies of development. This principle is shown schematically on Fig. 2.
Practical realization of forecasting principle in the enterprise activity on the basis of present information is placed in content of such direction as trendwatching.

**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 *(Compiled by the authors)*.

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. 3.
The newest directions of present tendencies determination, described Figure 3, discover that possibility for future development forecasting, that now is the most necessary for the industrial enterprises of Ukraine, such as: determination of further development prospects on the basis of learning of modern social-economical processes and events (Kvasha, 2010).

Prospective direction of the industrial enterprise development is a direction of the industrial enterprise development, directed on providing of enterprise mission execution by means of realization of those modern and future development possibilities that have the biggest speed of implementation and providing of maximal profit in future (Compiled by the authors).

1.3 Factors of influence and tendencies of determination of prospective development directions

During trendwatching investigation of modern development prospects of the industrial enterprises of Ukraine, understanding of basic criteria is necessary, due to that tendency selection will be made. Whereas the object of investigation is the industrial enterprise, tendencies of social-economical processes and events should be directed both on external and internal factors of influence (Lapovskyi, 2012, Tiutiunnik, 2012, Sydorchuk, 2013).

Internal: industrial development, technical-technological opportunities, peculiarities of functioning, enterprise potential, readiness of 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, constituent parts (fig. 4).

Figure 4. Scheme of mutual agreement of factors of effect on determination of directions of prospective development of enterprise

Source: Compiled by the authors
Based on these criteria we can form basic trends of present time which will be a resulting index of choice of trend of prospective development (fig. 5).

<table>
<thead>
<tr>
<th><strong>Criteria</strong></th>
<th><strong>Trends</strong></th>
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<tbody>
<tr>
<td>Market conditions</td>
<td>Decrease of safety of relations at the market</td>
</tr>
<tr>
<td>Export, import of materials, raw materials, constituent parts and industrial products.</td>
<td>Termination of realization of export-import, absence of possibility to continue development in the same direction at international scene</td>
</tr>
<tr>
<td>Industrial development</td>
<td>Increase of intensification terms of processes of reproduction and renewal</td>
</tr>
<tr>
<td>Enterprise potential</td>
<td>Market, innovative and production and sales possibilities of using of existing achievements</td>
</tr>
<tr>
<td>Readiness of enterprise to change the vector of development</td>
<td>Application of spontaneous models of strategic management</td>
</tr>
<tr>
<td>Adaptation to modern market conditions</td>
<td>Orientation at ways of import substitution</td>
</tr>
<tr>
<td>Consumer's preferences</td>
<td>Low level of demand because of distrust to goods' quality</td>
</tr>
<tr>
<td>Inter-branch relation</td>
<td>Acute loss of the set partners’ relations with contractors</td>
</tr>
<tr>
<td>Enterprise image</td>
<td>Expansion of sphere and quality of contacts (consultative, legal, insurance, transport, touristic, hotel, security etc.)</td>
</tr>
<tr>
<td>Technical and technological condition</td>
<td>Possibility of creation and realization of innovations at all stages of production cycle</td>
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Figure 5. Tendencies, formed on the basis of trendwatching with the aim of separation of promising trends of development of industrial enterprises in Ukraine

Source: Compiled by the authors

The negative value of foreign trade, high dependence of Ukrainian economy on foreign policy situation, saturation of the domestic market with imported goods, as a result of which domestic enterprises are driven into a corner – all these destabilizes self-dependence, independence and effectiveness of activity of both small enterprises and industrial complexes, which is reflected directly at state economy. Absence of motivation of national producer led to that niches of domestic market are filled with import products. Own enterprises in such conditions have become simply noncompetitive.

According to data of fig. 5 it is clearly seen that most trends of future development of industrial enterprises must be directed at increasing of level of economic safety of industrial enterprises and market penetration. It becomes possible at the expense of using own resources and substitution of import supply with domestic one – Ukrainian materials, raw materials and constituent parts. Thus, the basic direction of development of industrial enterprises, which is prospective and in in a long-run period will enable to increase the level of industrial activity of Ukraine is a direction of import substitution, which in its turn will increase the level of image of industry of Ukraine in the whole and industrial products at international markets in particular.

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.

Prospect of development of enterprise is penetration to international sales markets. But for achievement of this Ukrainian enterprises should consolidate its positions at domestic market,
raise credit of trust of consumers to domestic producer, create image of the enterprise, and only after that European market will perceive our enterprises as competitive. Determination of necessary kinds of products and promotion of them and their producer at the market is the priority issue.

From the experience of developed countries 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 – 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). As to Ukraine, the most acceptable is the first variant of technological development. This way is quite long, science-intensive, requires financial involvements for general refocusing of industrial-sales process, but is the safest and does not depend on factors of external influence, which at present time have acutely risen before enterprises. 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.

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.

Critical 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. Realization of state programs of import substitution becomes one of the most important factors of economic health of the country.

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 (Iliashenko, 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. If the level of some components turn out insufficient, it is necessary to look for the ways of their improvement, possibly with involvement of external companies, for example, investors.

Strategy of import substitution is a farsighted strategic step in policy of producer, taking of which demands, apart from detailed analysis of enterprise development potential, analysis of product groups with which it is necessary to work, risks analysis and economic effect from these measures, payback time of placed investments etc. Import substitution policy at industrial enterprises can lead to global change of market and its operators. As a result we will get the newest competitive enterprises, which in prospective can orient our own products on export.

\textbf{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 (Compiled by the authors).

Strategy of import substitution can be referred to market-oriented innovative strategies of enterprise development. Principal scheme of its formation is shown on Fig. 6.

![Diagram of strategy formation](image)

Figure 6. Scheme of formation of strategy of import substitution as a strategy of enterprise development

*Service: Compiled from Shypulina, 2012.*

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

There is a necessity of permanent analysis of enterprise development potential for providing of activity efficiency. That is why, the authors offered group of factors for determination of integral indicator of assessment of enterprise's possibility 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 etc;

The third group of factors – social indicators:
- environmental compatibility of production;
- providing of working positions;
- motivation of management of enterprise and workers;
- compliance with state programs of activation of import substitution of products of domestic producers.

On the basis of holding analysis of these factors' groups integral index of enterprise development potential is determined by means of implementation of strategy of import substitution (Compiled by the authors).

\[ E_D = \{E_I, Q_I, S_I\} \]

\[ E_F \geq E_{F,cr}; \quad Q_F \geq Q_{F,cr}; \quad S_F \geq S_{F,cr}; \]

- \( E_I, Q_I, S_I \) – actual values of factors state of index economic group, qualitative and social.
- \( E_{I,cr}, Q_{I,cr}, S_{I,cr} \) – critical values of factors state of index economic group, qualitative and social.

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

Optimal situation is when \( E_F \geq E_{F,cr}, Q_F \geq Q_{F,cr}, S_F \geq S_{F,cr} \), in this case all conditions for implementation of import substitution strategy are available, as economic, qualitative, social conditions are sufficient.

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. 7.
Criterion of import constituent parts exclusion from composition of end products

Check criterion of import constituent parts exclusion by product groups

$E_D = \{EF, QF, SF\}$

$EF \geq EF_{cr}; QF \geq QF_{cr}; SF \geq SF_{cr};$

- Yes
  - Own manufacture of constituent parts for each product groups,
    IMPORT SUBSTITUTION

- No
  - Optimize components of EDP

Figure 7. Conditions of displacement of import constituent parts from composition of end products

Source: Compiled by the authors

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 products there is a necessity of image model formation, that would take into consideration peculiarities of activity of this enterprise. That’s why enterprise’s image strategy is formed on the basis of import substitution strategy (Fig. 8).

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.

![Diagram of strategic management of enterprise image]

**Figure 8. Position of import substitution strategy in model of enterprise image management**

**Source:** Compiled by the authors

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 to each group of interaction subjects;

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 experimentative new 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.

Enterprise’s image as many-sided concept combines all components of economic safety.

It follows from Fig. 9 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.

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 and assurance of its competitiveness.

**Conclusion**

Today’s economic and political situation endangers stable activity of industrial enterprises, thereby forcing them to search and use innovative directions of its activity. The authors proved importance of import substitution as innovative development stage of enterprise and factor of its image improvement. Therefore a range of tasks were solved and conclusions were drawn:

- preconditions for transfer of domestic production to innovative development way were indicated and positive consequences of implementation of import substitution strategy were distinguished;

**Source:** Compiled by the authors
- impact factors and tendencies of determination of enterprise’s perspective development directions were distinguished;
- trendwatching was singled out as the main method of forecasting of industrial enterprise’s activity;
- scheme of formation of import substitution strategy was proposed as enterprise’s development strategy;
- criterion base of estimation of probability and expediency of import substitution strategy implementation at industrial enterprise was developed;
- three component index of estimation of enterprise’s development potential was offered for estimation of probability of import substitution strategy implementation;
- positive influence of strategy choice of import substitution on assurance of enterprise’s economic safety and as a consequence – image improvement as competitive advantage was shown.

Thus, implementation of import substitution strategy at domestic industrial enterprises will assure their effective activity domestic market with perspective of penetration to foreign markets.

Further investigations should be aimed at development of formalized procedures of implementation of import substitution strategy and its sales control.

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