

ECONOMIC DEVELOPMENT STRATEGY

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Irina Miagkykh²**THE ISSUES OF THE DEVELOPMENT STRATEGY FORMATION
OF AVIATION INDUSTRY COMPANIES IN UKRAINE**

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Abstract. *The article substantiates the notion of strategy, examines the issues of the formation and implementation of aviation company development strategy, and delineates the contingency of strategy formation upon internal and external factors influencing the long-term stability of companies' business operation formation.*

Keywords: concentration strategy; financial management; strategy; strategic management.

1. Introduction

The present-day practice of company operation in Ukraine in market economy conditions brought about the emergence of a new notion for companies, that of bankruptcy. Companies in the aviation industry are not an exception too, as the industry is dominated by negative tendencies on macro-, meso- and micro-levels. A considerable number of aviation companies have gone bankrupt already or are on the brink of bankruptcy.

In such conditions, a necessity rises to secure the financial stability of an organization. That requires an efficient management system that will allow making timely and prompt management decisions, employing the minimum set of management subsystems, methods and tools.

One of such subsystems is strategic management of financial stability, and it is topical in view of the fact that it facilitates further business growth, commercial success and stable development.

2. Analysis of Recent Research and Publications

In present conditions, there exists a plethora of interpretations of the essence of the notion of "strategy". Thus, M. Mescon, G. Albert, F. Khedouri, and J. Stephenson understand strategy as a long-term plan or agenda of company's management aimed at achieving specific goals: strengthening market position, meeting customer needs, securing concrete advantages; moreover, A.A. Thomson Jr., I.M. Herchykova deem company strategy to be a system of measures or a set of

actions that secure the achievement of a certain goal set by the company. H. Mintzberg and J. Lampel offer the following definition of the term "strategy":

- management plan, a guideline or a development direction for the future;
- the principle of conduct or adherence to any conduct model;
- position, i.e. the placement of designated products on specific markets;
- prospect, i.e. organization's main mode of action;
- a successful method implemented with the aim of outclassing a rival or a competitor.

In our view, the definitions of strategy presented here bear a common element – an action plan that needs to be fulfilled for a company to achieve its set goals. In this regard, strategy should be viewed as a complex notion. At its core is a general action plan concerning the determination of a company's strategic behavior and the possible option of changing the plan promptly if changes occur in the external environment.

3. The objective of the article

Identifying issues in the process of forming and implementing the development strategy by aviation companies in Ukraine.

4. Presentation of the main material

The development of companies in the aviation industry in the conditions of economic destabilization is primarily dependent upon the correctly chosen development strategy and the

availability of highly qualified managers. One of the prerequisites of aviation companies' development strategy is their financial stabilization, both current and long-term.

The solution of the issue of financial instability of aviation companies in the conditions of severe crisis in Ukraine ought to commence primarily with the elimination of insolvency, since the availability of funds will secure the possibility for aviation companies to perform timely settlement with contractors, banks (loan repayment), repay salary arrears, pay taxes on time etc. At this stage emerges the possibility to replenish ownership capital by way of income reinvestment. Only in such conditions aviation companies will be able to count on: the receipt of income (revenue) from selling products (services, goods), rational placement of ownership capital in assets with further increase of net income, improvement of profitability, attractiveness and investor involvement, the improvement and renewal of facilities and resources (including the purchase or lease of new aircraft), the creation of workplaces, involvement of high-profile experts, capital investments into intangible assets etc.

The analysis of international business practice testifies to the necessity of working out a development strategy – the majority of companies that achieved prominent results in business owe their success precisely to the implementation of a strategic management system. The practice of flourishing companies proves that strategy development is justified and expedient, if it results in the development of more or less reasonable plans taking into account the specific features and the development level of the company itself [6].

In order to choose precisely an effective strategy of the development problem solution, the management of an aviation company should primarily establish the order of priority of the management object formation, i.e. to analyze problem situations, impact factors and their outcomes, to determine the goal of problem solution. Taking into account the general development strategy of an aviation company, economic and strategic plans should be developed that are oriented towards the improvement of specific business units of economic agents.

In the course of researching the activities of companies operating in the aviation sphere, the negative impact of the following factors upon the functional efficiency and the development of aviation companies and airports of Ukraine has been detected: small volumes of traffic, which hinders achieving an

income level sufficient for the allocation of funds for modernization purposes; scarce current assets, and, hence, impossibility to replace outdated equipment and maintain its operable technical condition pursuant to flight safety requirements; tax pressure exerted on airports, in particular, land taxes exceed 20% of expenses on average and are not returned to airports as subsidies, capital investments etc.

Hence, without financial support from local bodies and mobilizing additional funds, the development of airports is not possible; the growth of non-aviation activities is restrained; air traffic reduction due to consumers' low paying capacity and prohibition to ship excisable goods on international lines leads to the decrease of flying intensity, the increase of land use payments, and the grave financial state of the majority of airports, which is aggravated by them being maintained on the books of community facilities.

Major factors causing the uncompetitiveness of Ukrainian aviation companies are the following: the state of the fleet, its physical wear and tear, and obsolescence. Other important issues of the fleet are the incompliance of aircraft with international standards, which impedes the performance of international flights by Ukrainian carriers, the decrease of demand for domestic regular air transport services; establishing of small airlines in an attempt to win customers, which often perform flights, especially charter ones, at dumping prices, worsening both their own financial standing and that of their competitors. Such processes are accompanied by the reduction of flight safety and service level, as well as lowering of customer servicing quality.

Centralized investment into the development of the Ukrainian civil aviation has led to unreasonable increase of capacity, but today this powerful complex is underexploited, since neither the government, nor regulating authorities, nor companies themselves have sufficient funds at their disposal. Utilized equipment has low productivity, is incompliant with environmental safety requirements and is very worn out, which is why the level of operational costs rises, and companies are forced to include these costs into contract prices, thus bringing the number of purchase orders down.

The air transport of Ukraine calls for comprehensive reconstruction and large amounts of money that aviation companies cannot provide. Spontaneous pricing, the ruining of the financial credit system, rejection of centralized regulation of investment processes stopped the flow of dotations and investments into aviation companies.

Market economy requires establishing airlines capable of self-development, self-organization, tackling competition that is ever growing under the impact of domestic and external market needs. Aviation companies need a new development strategy that would take into account the influence of the analyzed factors; they need to establish precise goals and elaborate the ways of achieving them.

In the present-day practice of integrated structures, employed most frequently in the process of Integrated Business Structure (IBS) development strategy is the scenario-based approach to a forecasted situation, according to which alternative versions of strategic action programs are developed.

A characteristic feature of the general corporate strategic program development process is its multidimensionality, systemacity, and comprehensiveness. Overarching strategic programs must be interrelated and balanced in different directions and correspond to the mission of IBS in the aviation domain. As the practice of corporate management has demonstrated, among the top priority objects are investment and innovation development strategies, as well as the organizational and social strategy. In modern economic conditions, the management of domestic aviation companies shifts the main emphasis to the implementation of service development and sale strategies, that is, such that are oriented towards the solution of issues pertaining to the sphere of operating in the external environment.

The major issue of managing strategic planning on the level of corporate management is timely response to the contingencies of external and internal environment, the results of business operations and the change of planned economic indices.

Factors impacting the formation of corporate mission of aviation companies are formed with the use of the developed SDI approach – scrutiny, development and implementation of managerial decisions regarding the provision of the mutual influence of the external and internal environment. Depending on individual features of an aviation company, constituent elements are selected based on own advantages, which have a high possibility of impacting the successful implementation of corporate goals. The most constructive method of determining the optimal managerial solution may be the expert assessment method that is applied in cases when the task is partially or completely resistant to formalization and may not be resolved by mathematical methods.

For the research of such issues by a business, it is expedient to involve international experts in order to reduce the risk of subjective attitude in the process of analysis. The algorithm of determining the realistic contents of a corporate mission of aviation companies is characterized by a selection of market- and resource-based approaches, taking into account criteria of different quality.

Therefore, one of the tools of strategic plan implementation is the reform of production and organizational structures, management systems and forms of ownership. Important for management is the choice of concentrations strategy for aviation companies.

Any aviation company management model is based upon the respective concept. In line with the strategic management concept, external and internal environment analysis for aviation companies is a necessary element of the mission and target setting process, and strategies in this case are goal achievement tools for aviation businesses. For successful implementation of a selected aviation company development strategy, company's precise functioning within the opted management concept is necessary. The choice of aviation company development strategy is in the first place dependent on the situation in which businesses operate, therefore, marketing programs used by managers (short- and long-term) require the development and use of a strategy that, in given conditions, would maximally correspond to state economic policy and, simultaneously, secure for an aviation company necessary efficiency, profitability and material interest in business outcomes.

Given the specific features of aviation businesses, concentration strategy is one of the priorities in the formation of aviation company development strategy, i.e. it presupposes a company's focus on one (or many) market segments and is aimed at gaining price leadership or differentiation. Concentration strategy is oriented towards a small specific group of customers (market segment) via a specialized set of marketing measures aimed at meeting the needs of this segment precisely [1, 3]. Concentration marketing strategy is effective primarily for small aviation companies offering special destination services, for instance, a limited number of charter flights. In order to achieve market success, it is vital for an aviation company to meet the needs of a chosen market segment in a better way than competitors. At the same time, this strategy is connected with a higher level of risk, because if a

chosen market segment does not live up to expectations vested in it, the aviation company will incur loss.

In concentration strategy, market segments (concentration objects) may be a certain group of customers, a certain type of services (passenger or freight transportation), a certain geographical market (domestic, international), and an aviation company, having opted for a certain segment, has to serve it more effectively than its competitors, rivaling in the general air transportation market. This is a precondition for the application of the concentration strategy.

Thus, concentration strategy is a comparatively profounder differentiation of services offered by an aviation company or the achievement of smaller expenditures in the serviced segment. In respect of a separate market segment, the same regularities are true as in case of the implementation of main strategies: “leading in cost (price) reduction” and “leading in product differentiation” in respect of the market in general [3].

The application of concentration strategy secures the following advantages: no need for considerable financial expenses and the large size of an aviation company; even when taking up an inconsiderable market niche, the aviation company may generate ample revenues.

Thus, strategically oriented aviation companies enjoy these advantages: the possibility to minimize the adverse outcomes of external environment changes, as well as “future uncertainty” factors; the possibility to take into account objective (external and internal) factors forming changes, to explore these factors; the formation of respective data banks; the utilization of a necessary base for strategic and tactic decision-making; securing long- or short-term efficiency and profitability; improvement of aviation company manageability due to the availability of a system of strategic plans, the possibility to benchmark achieved results against the set goals specified in the form of planned objectives; the implementation of the incentive system with the aim of securing adjustable flexibility of an organization and its separate subsystems in the conditions of change; securing the dynamism of changes by way of accelerating practical actions pertaining to strategic plan implementation based on the respective regulation, control and analysis system; the creation of production potential and external relations system facilitating changes and effective for goal achievement; implementation of the state principles supports the substantiation of the sequence of actions concerning concept implementation and strategic management system formation.

As market relations develop, economic processes taking place in the domestic market are ever more subjected to the impact of various (both controlled and uncontrolled) factors. In the operation of aviation companies, different types of risks emerge constantly, bearing unique features and outcomes. This has to do with the fact that business specificity of any aviation company consists in that its operations are connected with risks of accidents that are frequently incomparable with those that emerge in industrial companies from other fields of economy, therefore, risk management is important and necessary.

Therefore, the main directions of solving issues pertaining to aviation company development strategy are the following:

- taking into account the ample experience and research in the aviation sphere in respect of strategic planning processes, the optimal selection of separate reforming directions should start with designing the assessment mode of quality indices that characterize the organizing and economic efficiency of a strategic plan;

- in risk management, its quantitative assessment plays an important role. Therefore, in order to choose a particular risk limitation method, an entrepreneur needs to know what losses he will incur in case of failure. In view of this, it is necessary to make comprehensive use of qualitative and quantitative market analysis;

- implementation of proposed risk reduction measures will allow improving the paying capacity and increase the financial resilience of aviation companies and their performance, as well as will make financial resources management in the company more effective;

- modernization and updating of aviation equipment based on substantiated business plans involving investment capital;

- attracting investments for the development of aviation companies and airports by way of share sales and the use of different forms of cooperation;

- increase of the competitiveness of domestic air transport companies.

5. Conclusions

Therefore, the results of the research of aviation company development strategy formation in Ukraine demonstrate that in economic crisis conditions in Ukraine, the basis for aviation businesses is adjustment to the conditions of “increased dynamism” of both internal and external environment. Complicated economic conditions, ongoing competition requires efficient managerial actions from businesses aimed at securing the development of aviation companies with

the use of novel management tools and technologies. Therefore, the choice of strategy directions is only possible after a preceding research of an aviation company's financial standing by way of methods, ways, technologies, diagnostics, information provision, identification of bottlenecks, search of unused reserves and their effective utilization. A correctly elaborated aviation company development strategy taking into account all factors may help to set a precise goal and pave the way towards achieving it.

Identification of the impact of factors on the formation of corporate mission through the development SDI approach presupposes scrutiny, development and implementation of managerial decisions in view of external and internal environment, unique features of aviation companies and their components. Market- and resource-based approaches to the selection of targets complement the methodological toolkit of strategic planning and support the manifestation of numerous competitiveness factors.

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О.В. Ареф'єва¹, І.М. Мягких². Проблеми формування стратегії розвитку підприємств авіаційної галузі України

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У статті обґрунтовано поняття стратегії, розглянуто проблеми формування й реалізації стратегії розвитку підприємств авіаційної галузі, розкрито залежність формування стратегії від внутрішніх та зовнішніх факторів, які впливають на стабільність формування діяльності підприємств в довгостроковій перспективі.

Ключові слова: стратегія; стратегія концентрації; стратегічне управління; фінансове управління.

Е.В. Арефьева¹, И.М. Мягких². Проблемы формирования стратегии развития предприятий авиационной отрасли Украины

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В статье обосновано понятие стратегии, рассмотрены проблемы формирования и реализации стратегии развития предприятий авиационной отрасли, раскрыта зависимость формирования стратегии от внутренних и внешних факторов, влияющих на стабильность формирования деятельности предприятий в долгосрочной перспективе.

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