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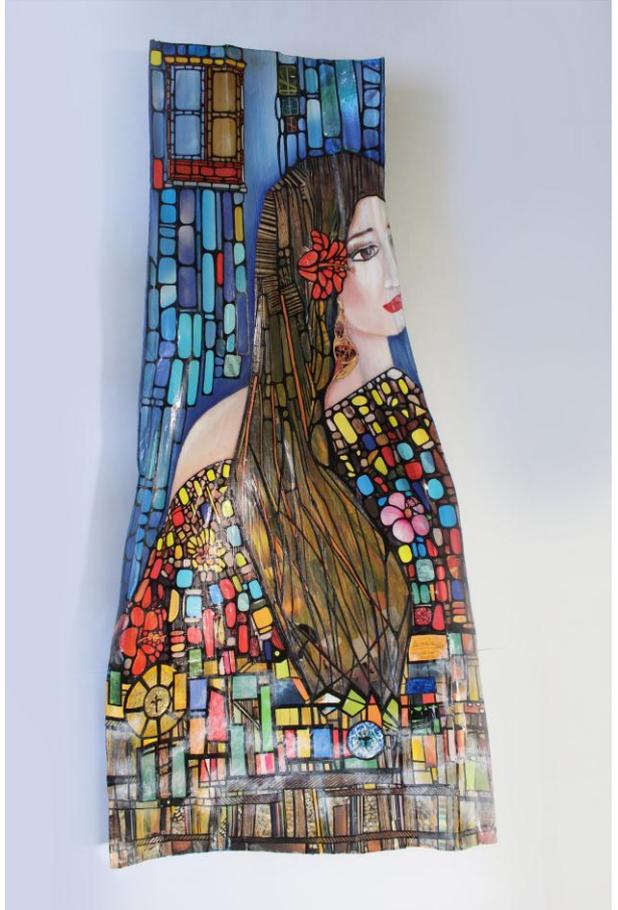
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## The strategy of industry development as a factor of competitive advantages realization

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### Abstract

The study aims to investigate conceptual foundations of strategy of Russian industry development as a factor of competitive advantages realization on the international market via documentary and qualitative comparative analysis of previous works. The article substantiates that the economic viability and the efficiency of socio-economic development of the national economy always depends, first of all, on its competitiveness. In conclusion, the Russian mechanical engineering industry in its current state, characterized by a high degree of fixed assets depreciation, low productivity and weak innovative component of production, requires a more detailed approach to improve the competitiveness of its enterprises.

**Key words:** Competitiveness, Strategy, Market, Industry.

## La estrategia de desarrollo de la industria como factor de realización de ventajas competitivas

### Resumen

El estudio pretende investigar los fundamentos conceptuales de la estrategia del desarrollo de la industria rusa como un factor de realización de ventajas competitivas en el mercado internacional a través de un análisis comparativo documental y cualitativo de trabajos anteriores. El artículo demuestra que la viabilidad económica y la eficiencia del desarrollo socioeconómico de la economía nacional siempre dependen, en primer lugar, de su competitividad. En conclusión, la industria rusa de ingeniería mecánica en su estado actual, caracterizada por un alto grado de depreciación de activos fijos, baja productividad y débil componente innovador de la producción, requiere un enfoque más detallado para mejorar la competitividad de sus empresas.

**Palabras clave:** competitividad, estrategia, mercado, industria.

### 1. INTRODUCTION

It is generally accepted that competition is the basis of relations between different market actors. The greatest success is achieved by economic entities with clear competitive advantages and well coping in domestic and international competition in volatile economic situations. It should be noted that competitiveness is a kind of universal indicator. However, this indicator is engaged in the issues relating not only to economic entity activities, but also to many activities in various fields, remaining an important characteristic of a company. Historically, competition was born in the context of simple

commodity production. Every small producer sought to create the most favorable conditions for production and marketing of his goods to the detriment of other market exchange participants. Growing dependency of producers on the market environment and price fluctuations increased competition. The opportunity to strengthen the economy, to use wage workers and exploit their labor arose then leading to capitalist competition. In modern conditions, competition also acts in various forms as an important means of developing production.

Hypothesis. The hypothesis of the our study is based on the assumption that the potential for growth of national economic performance and efficiency of the country's industry can be realized through the implementation of effective competitive strategies developed for different sectors of the Russian economy (Slack, 2013).

## **2. METHODOLOGY**

The notion of competitiveness has recently been an economic category, which, for one reason or another, was not almost covered in the economic literature. This situation can be explained by the fact that competitiveness in itself is a completely obvious concept. That is, practically all the structural components of this economic category are well known and do not require any concretization or additional explanation. Moreover, having studied academic literature on the subject, we came to the conclusion that the notion of competitiveness was often associated with the notion of efficiency, although

competitiveness uses the criteria of efficiency and includes more complex interdependencies of individual indicators of different market actors. Moreover, in the context of a planned economy the analysis of competitiveness indicators and their growth was not relevant, and the transition to a new market mechanism, with all the ensuing consequences, was so rapid that Russian economists simply did not manage to specify the new realities, new economic laws and concepts. The excessive theorizing, along with a weak practical application, also contributed to the fact that the notion of competitiveness was not given much importance (Babuk, 2013).

### **3. RESULTS**

In the conditions of a sharp transition to market relations, there were no rules or foundations, based on which the managers could make decisions aimed at achieving high competitiveness indicators. The main consequence of this situation was the need to develop the fundamentals of market relations, and at this stage of its development, the Russian economic science has some theoretical materials relating specifically to the conceptual framework for competitive strategies. The notion of competitiveness is increasingly used in the process of solving and analyzing both theoretical and practical problems. We believe that it is impossible to offer a single definition of the competitiveness. But it is possible to identify the main criteria for determining the competitive position of an economic entity depending

on its sector and the scope of application of this concept (Agarkov, 2013).

We start from the fact that the concept of competitiveness will be supplemented with different characteristics depending not only on the scope of its application, but also taking into account the external and internal factors that are constantly changing, and restrictions that can be artificially imposed on a market participant. And with this in mind, we have offered a definition of competitiveness, which complements the existing ones, but takes into account external constraints, as well as changing external environment. The ability of an enterprise to remain competitive in that context distinguishes it from other market participants. It is the ability to hold its positions in the industry or in the market at the same level during the crises that is the main condition for ensuring competitiveness and survivability. Thus, taking into consideration the aforementioned, the following definition of competitiveness can be offered: the competitiveness of an economic entity (or enterprise) is a quantitative and qualitative superiority in certain segments of the market over its other participants in a given period of time, achieved without damage to the external environment, determined by a set of market requirements for products, providing a certain rate of profit, as well as characterizing the ability of the enterprise to maintain its market position, in the event of a crisis, at the same level or above the level of the main competitors, for a certain period of time (Emelyanov, 2014).

Among the main factors contributing to the decline in competitiveness are: the absence of a program for the domestic market protection; the lack of a legal framework providing support to domestic producers; the liberalization of customs duties for importers; the dominance of imported products; the lack of financial support (investment influence) due to the unattractiveness of the market; the lowering purchasing power of the population. Studying the competitiveness at the micro level, we have found that the most complete information is obtained not from comparing the quality of produced goods, but from identifying the stable relationship between the quality and the cost of goods manufactured. The most frequently used parametric research methods allow not only to establish these relations, but also to quantify them. The assessment of micro-competitiveness may include both specific products and product groups. When assessing the competitiveness of an industry or an industrial complex, it is necessary to take into account such an important factor as the functioning of the industry as an organic part of the national economy. From this perspective, we can assess to what extent the industry performs its specific functions (for example, providing the population with food, if we are talking about the agro-industrial complex) (Epikhin et al., 2018).

At industry-level, the competitiveness can be assessed by applying the following indicators (and a combination of them): labor productivity; wage level; capital intensity; scientific contribution and technology level; a set of knowledge and scientific reserves necessary for the independent development of products and their reproduction;

technological potential for the implementation of scientific and design developments; the degree of export orientation or import dependence of the industry; correspondence of the industry development to the level of the national economy development; the same with respect to product price developments; expansion of the industry (the use of its products in various sectors of the economy), etc. This set of indicators may be modified or supplemented taking into account the specifics of industry associations, financial-industrial groups or individual sectors of the economy. Modern definitions of national competitiveness adopted by a number of official organizations or proposed by individual scientists are essentially consistent with the general definition of competitiveness as the ability of companies, industries, regions and nations to provide relatively high levels of income and wages while remaining open to international competition.

National competitiveness can be measured with the help of a number of indicators among which the trade balance; input costs per unit of output linked to the national currency rate; market quotas. However, these indicators do not fully reflect the nature and quality of competitive advantages. The productivity should be considered as an integral measure of national competitiveness, since it shows if a country can be a low-cost producer under the condition of high wages, as well as the total factor productivity, which is measured by the number of products produced per unit of total labor and capital input. The level of competitiveness is a relative indicator, so it can be only a result of comparison. It represents a characteristic of the object showing how it distinguishes from others in the performance of its

functions. However, there are problems at each level of comparative analysis. For example, a sufficiently comprehensive methodology of assessing the competitiveness of specific products involves the expert evaluation of product quality indicators, which makes the results of the analysis very subjective. The analysis of enterprises and larger economic entities competitiveness is reduced to the choice of certain parameters used for comparison and this choice to define the result of this evaluation.

Perhaps, the most complete information is provided by the assessment method based on the theory of effective competition, which gives an idea of the competitiveness of an enterprise, covering the most important aspects of its economic activity. According to this method, the most competitive are those enterprises where the work of all departments and services is best organized. The effectiveness of their activities is influenced by many factors, primarily, by the resources of the enterprise. The evaluation of each unit performance involves an assessment of the efficient use of these resources. The method is based on the analysis of four groups of indicators of enterprise competitiveness. Therefore, at its core, the category of competitiveness of an economic entity reflects the real or potential ability to perform the functional duties in the conditions of the competitors' opposition. However, this approach is clearly not enough for practical application in analytical activities. The type of competitive advantage and the area in which it is achieved can be combined into the concept of standard strategies, in other words, completely different approaches to what are the high indicators in the industry. It means that the choice of a typical

strategy depends on the competitive advantage and the sphere of competition. Thus, the strategy of focusing on lower costs corresponds to the narrow objective in the field of competition, and the strategy of leadership through cost savings - to the broader goal of creating competitive advantages. The differentiation strategy is possible with a broad objective in the field of competition and differentiation in the competitive advantage. Finally, the strategy of focused differentiation is characterized by a narrow objective and directly by differentiation.

Currently, the main competitors in the global market are clusters and whole industries. Reflecting the dynamics of competitive advantages, clusters are formed, expanded, deepened, but they can also narrow, collapse, and disintegrate. The competitiveness of an industry is its position and the position of its individual participants in the domestic and foreign markets resulting from economic, social, political and other factors, and reflected through indicators that adequately characterize its state and dynamics. The competitiveness of an industry is based primarily on the competitiveness of industry products. In turn, the competitiveness is influenced by human resources, sales and after-sales service, advertising, the image of the manufacturer, market environment, fluctuations of demand. The competitiveness of an industry is defined by the presence of competitive enterprises: only a competitive enterprise can produce competitive goods. Maintaining of industry competitiveness requires a constant process of accumulation of advantages, especially where key factors were originally in a preferential position. A high level of competitiveness can be achieved

only if a country has a predominant position in some of the economic processes or actively develops them.

The current state of the Russian economy is characterized by a continuous decline in production and imbalances in the development of industry. The focus is still on primary and extractive industries, and to a much lesser extent on mechanical engineering, which is still in a challenging environment. Unfortunately, over the past 5 years, the Russian economy has shown a steady trend towards a decrease in current and future competitiveness - about 12% per year. One of the main reasons of this is low labor productivity, including in the mechanical engineering industry. As foreign experience shows, to overcome the existing backlog it is necessary to develop not only individual measures to bring the industry out of the crisis, but a scientifically based long-term strategy for the development of the machine-building complex at federal and regional levels, ensuring the conquest of certain markets for specific types of products. This, in turn, involves the development of appropriate tools to analyze the factors, determine the real situation and assess the competitiveness of machine-building enterprises in the market. It should be noted that the mechanical engineering industry has been and remains one of the leading industries in Russia. During the last four years, it generates an average of 15% of GDP, employs 34.5% of the working population (Faminsky, 2016).

Currently, the economic situation of the machine-building complex is quite difficult. The main problems of the Russian engineering industry can be briefly described by following challenges:

Strong depreciation of fixed assets. In 2015, the degree of wear was 51.2%, and in 2014, the coefficient of the renovation was 1.0%. The average age of the equipment is 22 years. The share of equipment older than 20 years exceeds 40%, and many enterprises use machines, manufactured almost half a century ago. Duration (often uncertainty) of the payback period for investment resources. Due to the low investment attractiveness, the share of self-financing machine-building enterprises increases and can reach 90%. Which, in principle, is not bad, but clearly not enough for a major modernization of equipment and implementation of new technologies. High degree of specialization. Each machine-building enterprise still has its own, strictly defined range of products. The steady aging and deterioration in human resources of the mechanical engineering enterprises, their low qualification. Insufficient level of innovative development: weak use of advanced technologies.

#### **4. DISCUSSION**

The presented summary of industrial development problems shows that the manufacturing industries, and in particular, mechanical engineering, produce uncompetitive products, consumed mainly by the domestic market. It is evident that an increasingly open economy will

require the improved efficiency of domestic enterprises and even industries, otherwise they will leave the market. A more detailed analysis of production and use of material resources shows that Russian machine-building industry is beginning to lose even the small competitive advantages in domestic market, for example, relatively low prices for basic production resources. Since 2000, the domestic prices for resources have aligned with the world ones, and in some sectors even exceeded them. This trend is still increasing due to many reasons, both of macroeconomic and technological nature. One of the factors is a high capital intensity in the resource sector, and its growth rates exceed production, which is the consequence of inefficient equipment use and the cause of the increase in production costs. Another problem is the growth of resource consumption in the national industry (*Tatuev et al., 2015a*).

The lack of competitiveness is common for Russian industrial enterprises. It is caused by shortcomings and problems in almost all areas of enterprises' activity, which indicates that the enterprises are not ready to detachment from government's assistance. Structural changes in the economy led to the formation of relations between producers, suppliers, consumers and the State, requiring the ability of business leaders to analyze the current market situation, to predict the dynamics of supply and demand, price fluctuations, the competitors' activities and planning their own activities based on the information obtained. Mistakes made by business executives at the transition to independent methods of management, led to a strong lagging behind foreign competitors: first, in the management system, and then in the

production and financial sectors. At present, the systemic crisis of industrial enterprises management caused by the changes in the economy of the country can be overcome by a progressive solution of many problems having led to a global problem of domestic machine-building enterprises - their uncompetitiveness. In our opinion, the fact that the set of problems identified above resulted from erroneous management decisions of enterprise executives, makes it expedient to form a system of strategic competitiveness management in the industrial enterprises.

The process of determining the best ways of improving the system of strategic enterprise management in order to increase competitiveness is an urgent task of today's theory and practice of machine-building management based on the need to use a balanced system of interaction between methods of competitiveness assessment and economic mechanisms of enterprise management, able to maintain and improve the competitiveness indicators. The systematic approach to managing the competitiveness of an enterprise is characterized by a number of interacting structural elements operating with a common goal. Accordingly, the systemic approach can be defined as having the following properties: a common goal; the interrelatedness of elements; external restrictions; the availability of resources to perform tasks; the presence of the control center (*Tatuev et al., 2015b*).

However, a number of principles should be followed in order to provide an effective functioning of the competitiveness management system in an enterprise. The principle of complexity requires to be

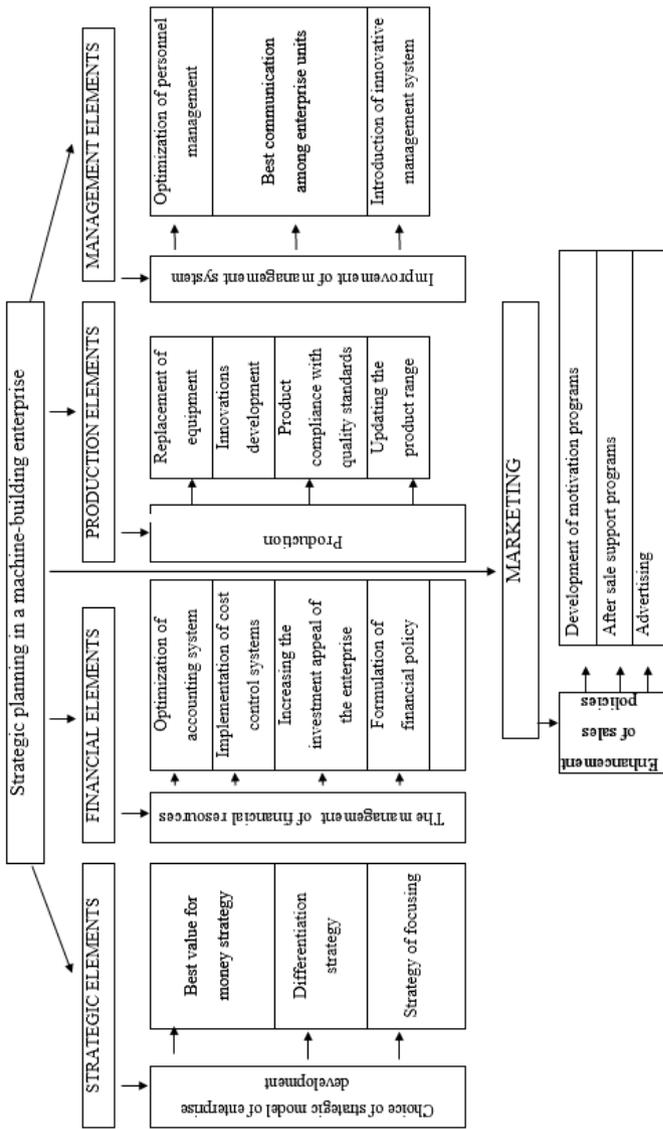
focused not only on one unit, product or one type of activity of the enterprise, but to implement the management decisions in all areas of activity; The principle of continuity must be applied due to the lack of efficiency of decisions implementation in the process of analysis of enterprise competitiveness, including market fluctuations and the competitors' behavior. This analysis should be carried out regularly, not periodically, in order to create the possibility to adjust the existing plans to improve the competitiveness on the basis of most recent data; The principle of constructiveness implies the identification of management objectives, considering the enterprise capacities and taking into account the expected changes in the internal or external environment of the enterprise. Value for money principle reflects the need for a well-balanced assessment of financial, production and organizational capacities of the enterprise to choose the best strategy in a particular period;

The principle of awareness consists in providing the most detailed information about the current condition of the enterprise to all members of competitiveness management team, as well as bringing information about the goals and plans of the enterprise to all employees to ensure their involvement in the activities of the enterprise; The principle of strategies diversification ensures that an alternative strategy of enterprise management will come into play in the case of inefficiency of previously adopted strategy. The development of a competitiveness management system within the framework of strategic planning, based on these principles, allows to create an operating mechanism that provides a coherent sequence of

actions of all the elements of the process. The positive effect of strategic planning system for competitiveness managing depends on many factors, the main of which are the financial condition of the enterprise and its structural organization. To ensure the fulfillment of the goals, it is necessary to use all types of resources of the enterprise: technical, labor and financial. In addition, the managerial decisions concerning the enterprise competitiveness should strongly influence the organization of financial flows in the enterprise.

The author proposes to define the strategic planning of enterprises as a constructive and programmed management method, which ensures the coordination of objectives and capacities of the enterprise with the interests of all parties engaged in its activities in order to create scenarios of its competitiveness increase. Taking into account the above principles of the competitiveness management system, we propose a set of strategic planning elements which could be used at the industrial enterprises, providing multilateral management of factors that have a direct impact on competitiveness (figure 1). The structure of this set of strategic planning elements is appropriate to the need for use of all available enterprise resources for the implementation of decisions concerning the improvement of competitiveness of the enterprise, and includes the following groups: strategic, financial, production, marketing and management.

Figure 1 - Structural elements of strategic planning at a machine-building enterprise (drawn up by the authors)



Each of these groups is a complete system aimed at ensuring the competitive advantages of the enterprise in a separate field of activities, the totality of them forms the competitiveness of the enterprise.

## **5. CONCLUSIONS**

The proposed system of strategic planning at industrial enterprises is a set of measures aimed at establishing an effective management system that promotes the competitiveness of each individual unit, and leads to a strengthening of the competitive position of the enterprise as a whole. The proposed system of elements is universal for strategic planning in enterprises of various sectors of the economy, however, in our opinion, it is most relevant to machine-building enterprises, taking into account the specifics of their activities: that is why a special attention is paid to the production and financial groups of elements. Of course, the Russian mechanical engineering industry in its current state, characterized by a high degree of fixed assets depreciation, low productivity and weak innovative component of production, requires a more detailed approach to improve the competitiveness of its enterprises. However, the proposed system allows to determine the most important directions for the implementation of measures to improve competitiveness. The individual groups of elements are focused on achieving the common goal of the enterprise due to the concentration of the efforts of individual units.

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