

EQUILIBRIUM

VOLUME 6 ISSUE 2, 2011

ISSN 1689-765X

Kateryna Antoniv, Olga Mnykh, Josyf Sytnyk

National University "Lvivska Polytechnika", Ukraine

**PROBLEMS AND PERSPECTIVES
OF INTERNATIONAL COMPANIES IN UKRAINE
IN THE CONTEXT OF THEIR COST INCREASING**

JEL Classification Codes: *G3, L11*

Keywords: *international business, enterprise value, capitalization, market environment, marketing*

Abstract: The article proves the relevance of the value formation of businesses that operate not only in domestic but also foreign markets. The causes of underestimation of enterprises in modern conditions of the worsening crisis are summarized. Priorities of export-oriented enterprises, their opportunities and threats under conditions of globalization of business are defined. The interaction of factors relating to commodity and stock markets, which significantly affect capitalizational processes is shown.

Introduction

Formation of the cost depends on the environment where the conditions for stability cycle of creation the cost and social value are generated.

New challenges in international marketing under conditions of consistently low competitiveness of the country make the existing export-oriented companies face the need to identify new sources of value creation factors of short- and long-term nature because of the fundamental changes of the ratio of external and domestic expenditures, the main items of assets and liabilities balance of modern business. This reflects the impact of global price trends in energy markets, technological advance, environmental crises and the increasing role of intellectual capital and products of its use in providing vital activity of the producer in business. With the increasing pace of scientific and technological development, intellectual capital which includes human capital, customer capi-

tal, innovation capital and capital of processes, becomes central in the issue of determining the market value of technological companies in competitive international markets.

The very essence and the transaction costs of international companies are subject to change according to the development of management, marketing, logistics, international distribution of technology improvements and tools of corporate governance. Gradually joint-stock companies entered such areas as production, sales, credit relations, insurance, transport and others. **Joint associations grow to the level of monopoly formations that are beginning to dominate in every area of national and international economy, therefore this form of centralization of corporate capital has a special role in the monopolization of the economy, and consequently in the regulation of commodity and financial markets that they are served by.** These phenomena substantially change the playing field in international business, the proportion of market forces, regulations that need to be integrated into the strategy of cost management of export-oriented companies.

The need to ensure economic and national security of Ukraine requires practical application of new philosophy of management of intellectual and innovation development and balancing strategic objectives in the 'society-state-investor-enterprise-client' system, where relations between the participants of the creation of added value are identified not only by categories of economic benefit, but social values as well. Marketers should be focused on the development of the enterprise as a specific intellectual product and means of socio-economic objectives targeting through value formation and creation value for customers. Still the question of whether businesses has adapted to real changes after Ukraine's accession to the WTO, whose market actors (and under its specific economic relations) rule the organizational adaptation mechanism and influence the selection of specific marketing tools under conditions of strengthening the negative impact of financial crises on the further life conditions or risk of suspension of unprofitable enterprises remains open.

Effects of transaction costs in international business permeate the entire economy of Ukraine, as in some way a separate company is opposed not only to domestic or foreign markets, but the state sector, the branch and a single individual. Changing patterns of conduct of international business members under conditions of transformation of economy in the direction of ensuring social responsibility of business is a prerequisite not only for cost formation but also for value system creation under the circumstances of system crisis and of stable high inflation in Ukraine.

Current problems and prospects of the value formation of international businesses

Relationship marketing in domestic and foreign markets, as practice shows, did not have a positive impact on the development of added value and in general on improvement the quality of social production, as the load capacity was rapidly falling and the inflation component increased when ordering imports in foreign currency for enterprises of Ukraine. As a result of the crisis the position of Ukraine has dropped 10 points in the ranking of international competitiveness index (ICI) 2009–2010 and takes the 82-nd place among 133 countries.

Disappointing forecasts were published by the agency ‘Expert Rating’, which sees no prospect of recovery in demand for Ukrainian exports in international markets, which could save Ukraine’s economy from the continuing recession in 2011, as in the weakest economies, as the events in Dubai, Greece, Iceland revealed, the effects of the global financial crisis deepened. Lack of experience in the effective combination of different forms of entering the overseas markets by Ukrainian enterprises, such as direct export, leasing, technology transfer, creation of production foreign affiliates – is one of the negative factors of underestimation of many Ukrainian enterprises and growth of the scale of financial speculation with their purchase.

Due to the processes of concentration of industrial, intellectual and financial capital, markets become endlessly varied, heterogeneous with various forms of social and economic interaction and different models of behavior of international companies.

The task for managers of international companies is to maximize enterprise value (shareholders) through investment, but these investments should not be considered only in the categories of income because investment may affect the interests of various partners in the undertaking business (Mnykh 2009; Mnykh 2002).

Commercial interests of those partners do not always coincide, which can lead (in case of the project failure) to the loss of a partner in the technological chain of production, deterioration of the image, reducing of the market value of shares, breach of the cycle of generating income. Therefore in the practice of international marketing it is important to develop an integrated model of the formation of economic value of the firm, which includes the following:

- strategic drivers (determining the optimal and flexible structure of resources, strengthening the competitive position of the enterprise);
- financial driving forces (financial optimization of capital structure through the dividend policy and the redemption of shares, strengthening control over resource management of units or affiliates);
- the corporate dynamics (formation of such a system of international business management, which will stimulate the efficiency of each business unit and clear definition of the prospects of their development).

Recently, the tendency to find ways to improve the value of the shares held by diversified companies has been observed (Damodaran 2007, p.146–149). Efforts taken by the managers of the company in this direction have an impact on marketing planning, which led to the emergence of a new indicator of the final result, called ‘shareholder value’. This figure is calculated by assessing the overall marketing strategy or project in terms of their ability to generate revenues at various stages of product and company life cycles. (Stachowicz-Stanush 2001). Calculation of ‘shareholder value’ requires an assessment of cash flows, future expenses, the size of the residual value of the enterprise, as well as opportunities to strengthen the image of the producer among buyers. (Borowiecki, Jaki, Misiulek, Rojek, 2005).

The image of the company serves as a very important asset to the company value, and its rating is significantly dependent on the amount of offers on a highly competitive commodity market. The latter approach may be considered acceptable and quite useful in the process of justification of the choice of foreign markets and targets for investment. Commodity portfolio in this case is seen as the glue between the corporate (common) strategy, marketing planning and investment.

Expanding business in foreign markets through the promotion of brand goods ‘business to business’ (B2B) and the use of ‘political capital’ of well-known businessmen, as a special brand, to create a prestige of companies and of net marketing organisation changes the relationship ‘state-investor-producer-intermediary-consumer’, and makes research of value of intellectual capital in the business and society more difficult.

Under the pressure of non-price competition international companies search for new sources of enterprise value formation and marketing tools in order to manage the process. The choice of the Russian market as a priority in the international marketing strategy, including domestic engineering, can be explained by the fact that since the USSR times and by now the standardization system of products applied in Ukraine has stayed the same, shared with Russia.

Therefore, the conflict between consumer value for the customer-oriented in the EEA, where the standards of the CIS countries are unacceptable, and the market price of the goods aggravates. It may even cause the termination of the contract of a consumer with national manufacturer in favor of foreign suppliers. In this situation, leverage of the competitiveness of Ukrainian goods by price options become weaker and marketing orientation through extensive increase in demand is not organically integrated into the model of long-term enterprise value. Enhancing innovation in commodity markets and technology transfer in a competitive environment determines the need to master the market analysis of capitalizational processes.

Polish scientist V. Kvashnytsky states that the dynamics of changes in domestic and international markets is highly dependent on the concentration of industry, which affects the duration of the market equilibrium and changes the

rate of capital return, and this rule transforms (for certain industries or sectors) from exogenous to endogenous with the growth at the level of concentration. (Kwaśnicki 2005).

Serious liquidity problems of Ukrainian enterprises in 2008–2010 during the crisis of non-payment will stimulate the development of approaches to reduce operational costs in moving goods to foreign markets and increase profits through closer interaction between subjects in relations ‘producer-consumer’, through mergers, cross shareholdings, forming networks, selection of exclusive relationships between manufacturers and suppliers. This is the growth of vertical integration, which aggregated index is the ratio of value added to production of exports, which serves as one of the reasons for the growing of market concentration (Mnykh 2002).

Separate holding structures, as a ‘sort of core’ of exports of steel products, lock technological chains, create market environment with all components of market infrastructure, acquire a multiplier effect of transfer pricing and transfusion of cash flows between separate structures due to the favorable change of areas and objects of taxation. But their commercial success does not have a significant positive impact on improving the capitalization of other subjects – domestic participants of international business, as they are not related to strategic and technological innovations and do not solve the problem of import substitution (Duraj 2004).

In the absence of effective mechanism of market regulation, in the processes of value creation and redistribution of property, monopolies and oligarchic structures play an active role. Ukraine has not developed the basic institutions for generating capital, and the economic activity of the whole population is not involved absolutely. That is why no investment in the infrastructure, education, health, or economic reform in the public sector will be effective, but will only increase inequality in income and entities providing benefits to those who have free access to the basic market factors, including foreign.

For almost two decades of building the independent state of Ukraine marketing was considered only as a function of business, but the approach to marketing as a new business philosophy gives a new vision towards the perspectives of the enterprise as sets of different types of business and the combination of different economic activities. It enriches the content features of micro-, meso- and macro-marketing and enables the detection of glue between different structural levels of social, economic and production systems.

Accordingly, in other areas the search for the strategic degrees of freedom and the creation of conditions for their providing should be performed, available for enterprises, which by the interpretation of Kennichi Omaye, mean the directions along which you can build a successful business strategy, implementation of which is focused on technological breakthrough. For example, we can distinguish two degrees of freedom for the automotive industry – a positive improve-

ment in the field of industrial design and improvements in mechanical systems. For energy-intensive industries strategic degrees of freedom will depend on the speed of transition to alternative, more economical sources of energy. Raising those degrees of freedom, for example, in marketing strategy, need to be seen in the context of long-term income generation and strengthening competitive advantage - product, business processes, enterprise and economy. Due to the growing role of corporate social responsibility criteria to the employees and the public (not just to shareholders), the margins of global business are more blurred, and their goals are complemented by non-financial indicators.

Set of priorities and partial goals of export-oriented enterprises must be capable of identifying effective tools, boosting the development of enterprises, and strengthening their driving forces. Such tools should be constructive and include three main features of competitiveness - cost, quality and core competencies (intellectual capital - experience, skill, knowledge, advanced technology). Accordingly, in the center of enterprise value formation should be mutual enrichment of intellectual capital of key market players as a prerequisite for:

- strengthening the business image of strategically important producer that reduces non-productive costs to combat competitors, shifting the emphasis towards strengthening the business core competencies and innovation; restructuring business within the priority areas of international marketing;
- human capital development through development of appropriate monitoring systems that enable critical evaluation of the quality of life; improvement of mechanisms for regulating the product life cycles and business processes;
- commercialization of technology transfer for their ROI in international marketing;
- timely withdrawal from the market low-quality products, which reduces the image of the enterprise and the country.

Stability of social-oriented business and growth prospects of its value should be provided by stabilization mechanism - a mechanism of feedback. Therefore, every company, in our opinion, should be viewed as a micro model of a state, as the node of technological, social, political, legal, cultural and economic relations. Essential factors in shaping the market value of a company and capitalization growth of the economy in the EEA are:

- intellectual capital;
- strength of political and economic power of senior management of the enterprise and access to administrative resources (to obtain licences and permits for the deployment of foreign business and applying to the concentration of capital in attractive sectors);
- legalization of business, especially activity of monopolists;
- the general consistency of enterprise development strategy with functional strategies throughout the vertical management in the system of business partnership;

- financial and informational support from the government;
- effective mechanisms to resolve conflicts between the major shareholders in the process of identifying goals and priorities;
- the real value of intangible assets in the process of economic growth and creating consumer value;
- criteria for evaluating the quality of economic growth and profits, the presence of investment incentives;
- type of business restructuring (technical, technological, organizational, financial) and its proponents (own shareholders or hired managers);
- ownership and state share in equity;
- availability of foreign capital and consistency of corporate cultures of major shareholders; metrological system of evaluation of interim and final financial results, social and environmental effects (Mnykh 2008).

As you can see in the table 1, the securities of only one company – ‘Motor Sich’ are on the first level of the list. This company holds a dominant position in the capitalization of economy of Ukraine in the end of 2010. Its intangibles in the first half of 2010. amounted to 1.58 mln. This enterprise is one of the largest in the world and the only one in Ukraine specialised in developing, producing, testing and repairing of 55 typical engines and modifications for 61 aircraft and helicopter types for various purposes, which are used in 106 countries around the world.

According to the table 1 seven in twelve enterprise securities included in the capitalization listed zero, indicating their low quality. Even companies that are monopolies, such as Drohobych truck crane, or Drohobych drill bit plant are not attractive on the stock market and therefore have high capitalization.

The destruction of cooperative relationships between producers and consumers in a political crisis and stagnation of economy of Ukraine takes place and business is forced to change international marketing and financial strategies in the commodity markets, which will lead to significant increase of transaction costs (through retreat of economic structures from business, changes of market segments, breach of contracts, etc.). The question is when such competition will be noticeable, how effective an anti-dumping investigation against foreign companies in the domestic steel market will be, and how carefully the phenomenon of ‘monopoly’ will be interpreted.

Under the conditions of system crisis in Ukraine, it is necessary to consider criteria for assessing the activities of international corporations that pursue goals of maximizing profits at any cost in a qualitatively different sphere, particularly in the context of the fundamental principles of coevolution of short-and long-term effects of their development on regional and national economy (so-called performance-stimulants and performance-destimulants). Besides, it is necessary to consider the problem of affiliate marketing from different points of view, particularly in the field of enrichment of mutual intellectual capital capabilities of

Table 1. Capitalization of industrial enterprises on 20.12.2010

| Enterprises | Level listing | Industries | Capitalization, million UAH. |
|---------------------------------------|----------------------|------------------------------------|-------------------------------------|
| Motor Sich | 1 | Aerospace | 5 780,40 |
| Kryukovsky Car Factory | 0 | Commercial cars and trucks | 3 992,82 |
| Stakhanov Carriage Works | 2 | Commercial cars and trucks | 832,23 |
| Dniprovagonmash | 0 | Commercial cars and trucks | 826,92 |
| Druzhkovsk Machine Works | 0 | Industrial machinery and equipment | 394,32 |
| JSC 'The Granite Industry of Ukraine' | 2 | Building materials and fittings | 357,60 |
| Mariupol Heavy Machinery | 2 | Commercial cars and trucks | 208,74 |
| Avtokraz | 2 | Commercial cars and trucks | 195,59 |
| Shipbuilding plant «Zaliv» | 0 | Commercial cars and trucks | 99,15 |
| «Ukrzv'yazokbud « | 0 | Heavy construction | 72,25 |
| Odessa PA 'Holodmash' | 0 | Industrial machinery and equipment | 14,80 |
| Gostomelsky Glass 'Vetropack' | 0 | Containers and packaging | 3,97 |

Source: <http://pfts.com/uk/qdm-trade-results-capitalization/>.

various market participants, in this case such manufacturing and research cooperation creates more favorable conditions for higher levels of economic freedom. Only in this case principles of real interaction between science, research and production in international business practice at national and international levels can act which will be the new driving force in the growth of capitalization at different hierarchy levels of the economy.

New challenge enterprises displace the emphasis on absolute performance - to identify the main trends of development of economies of scale – to new possibilities of intellectual capital and strengthening core competencies by bold ideas, creative projects and ambitious goals, sharing cost and creating conditions for its growth (which includes designing new business, developing new business, restructuring, franchising, branding, merging, technology transfer). In this context the concept of international marketing enables a broader interpretation of a company, enriching the content value of intellectual capital and customer capital.

The need for introduction of the marketing management category 'competitive strategy' is dictated by new market environment after the accession of Ukraine to the WTO and tough business conditions, new standards of social responsibility, quality standards and productivity, changes in the concentration of companies on international markets (Mnykh 2008).

Accumulation of problems associated with deficiency of energy resources and environmental pollution, accelerated the development of anti-crisis measures, energy saving programs, innovative development to diversify sources of supply, and generally led to a reorientation of policy of European community towards forming the active demand, as reflected in 'European strategy towards energy supply security' developed by the European Commission Green Paper. Those principles defined a new concept of 'environmental integration' in the European economic environment, the change in strategic approach (in which the regulation, not the supply, was the basis for market demand) was declared.

Search for approaches to problem solving of energy crisis led to the need of developing the theory of optional pricing for the assessment not only of certain investments related to the extraction of natural resources, but also the companies that own portfolios of investments in natural resources (like oil companies).

Securities market is potentially vulnerable to money laundering, and the internationalization of the circulation of securities generates various confusing speculative schemes, the appearance of rather nominal than real owners of companies. This excludes an adequate assessment of cash flow and generate cash flows from investing activities. Resale brokers securities with high price who cheat on foreign markets through the use of false marketing information about the issuers can artificially enhance the capitalization of certain issuers.

Problem of migration of financial capital abroad is particularly acute. From Cyprus to Ukraine there has been invested more than 8,5 mld.dol. And back to the volume of direct foreign investment in Cyprus has reached 6.3 mld.dol. Capital promoted abroad creates excess of capital primarily in the offshore areas. Returning to Ukraine, the capital shall establish its rules of the game on the markets and the new dynamics of transaction costs associated with entry and exit of enterprises from the market. Thereby artificial barriers are created to form a competitive environment.

Thus, the process of optimizing the capital structure of large domestic enterprises (mostly oligarchic structures) through foreign direct investment (direct and reverse flows) is beyond the scope of the national economy. Similar phenomena are essentially adjusting the weighted average cost of capital (WACC), as a source of growth in the value and competitive advantages of market participants. In addition, the absence of a direct link between performance indicators of enterprises and the possibility of business expansion through debt borrowing is empirically confirmed. In the unequal access to resources, investment and credit institutions the demand for banking services in financing transactions LBO/MBO (leveraged buy-out (LBO) increased, and in times of crisis processes of acquisitions using debt and equity investors; management buy-out (MBO) are more common.

Lack of transparency in the implementation of transactions, as well as a sufficient number of transactions in purchase and sale of securities suggests that in

most cases, their stock prices cannot be a guide in determining the market value and the procedure of business valuation of companies and securities involve rather complex analytical studies (Krykavskyy 2007).

Assessing the value of the company based on cash flow generation suggests that international business has good prospects, so you can expect to save its life as a system. However, these suggestions will come to life, depending on the impact of positive and negative factors of international marketing. The interaction of these factors determines their attractiveness to investors and credit rating. To those in the food crisis can be attributed agribusiness enterprises and market structures that create energy, financial, logistical and marketing support.

Conclusions

The study of conditions and sources of capital must convince the management that low capitalization of the company in international business and their passive role in innovative activity are temporary and are not symptoms of a long-term problem, or that such low capitalization is a system problem of economics, marketing and management. The commercial success of so-called cyclical export companies depends on the general state of the Ukrainian economy and changes in market conditions in different price cycles. Thus, problems of developing of processes require the identification of priorities in foreign policy and the real state support of innovation activity of enterprises, ensuring their access to long-term financing, transparent stock market. This will determine the real possibility of attracting new sources of business value.

The accumulation of problems associated with lack of energy resources and environmental pollution, accelerated development of anti-crisis measures, energy saving, development of innovation in order to diversify sources of supply, generally led to reorientation of domestic and foreign marketing policy of the Ukrainian business.

Literature

- Borowiecki R., Jaki A., Misiolek K., Rojek T. (2005), *Nadzór korporacyjny w procesie kreowania wartości i rozwoju przedsiębiorstwa*, (ed.) R. Borowiecki, Kraków, s. 67–93.
- Дамодаран А. (2007), *Инвестиционная оценка: инструменты и методы оценки любых активов*, Пер. с англ., 4-е издание, Москва.: „Альпина Бизнес Букс”, 1340с., с. 146–195;
- Kwaśnicki W. (2000), *Ewolucyjny model rozwoju przemysłu*, „*Ekonomista*”, Warszawa, Nr 4, s. 547–559.
- Мних О.Б. (2001), *Європейська інтеграція: зарубіжний і вітчизняний досвід. Щорічник наукових праць “Соціально-економічні дослідження в перехідний період”, вип. XXXI*, Львів, НАН України, Інститут регіональних досліджень, с. 134–141.

- Мних О.Б. (2007), *Методологічно-методичні проблеми оцінювання ринкової вартості підприємства*, с. 222–295 [in:] *Трансформація вартості у розвитку відносин «підприємство-клієнт*, за науковою редакцією Є. Крикавського і Н. Чухрай, Львів: Вид-во Національного університету „Львівська політехніка”.
- Мних О.Б. (2008), *Інтелектуальний капітал і його роль у формуванні вартості машинобудівного підприємства і його інноваційній діяльності*, „Вісник Логістика” Вид-во Національного університету „Львівська політехніка”, № 623, 2008 р., с.154–169.
- Мних О.Б. (2008), *Глобалізаційно-інтеграційні процеси і проблеми зростання ринкової капіталізації національної економіки*, Зб. Наук. праць Київського ун-ту ім. Т. Шевченка „Теоретичні та прикладні питання економіки”, К., вип.16, 326с., с.137–145.
- Мних О.Б. (2009), *Маркетинг у формуванні ринкової вартості машинобудівного підприємства* Монографія: Вид-во Національного університету, „Львівська політехніка”, 428с.
- Mnykh O. (2002), *Development of conception of partner marketing*, „Acta oeconomica”, № 13, Ekonomická fakulta Univerzity Mateja Bela v Banskej Bystrici, Slovakia, s .74–76
- Stachowicz-Stanush A. (2001), *Zarządanie przez wartości – kolejna moda czy gwarancja sukcesu*, „Przegląd Organizacji” №7–8, s. 40–43.
- Wartość przedsiębiorstwa* (2004), (ed. J. Duraj, T.V, Płock, s. 546.

